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PERFORMANCE AUDIT OF
CITYWIDE RISK MANAGEMENT



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TRANSPARENCY & ACCOUNTABILITY

October 30, 2026

Honorable Karen Bass, Mayor
Honorable Hydee Feldstein Soto, City Attorney
Honorable Members of the Los Angeles City Council

Re: Performance Audit of Citywide Risk Management

The City of Los Angeles has more than 50,000 employees delivering a wide range of services. The size and scope of the City's services and responsibilities carry real risks that can result in injury, harm, or loss to the very people the City is obligated to serve: the public.

Settling these legal liabilities has become increasingly expensive for the City. Its **annual payouts** have **increased from $131.5 million** in FY 2020 to **$282.5 million** in FY 2025, **totaling $1.03 billion over six years**. Though some liability costs may be unavoidable, every dollar spent on payouts is one dollar less for community services and essential infrastructure.

A majority of these liability costs are concentrated in a handful of areas. For example, the **Los Angeles Police Department (LAPD) and the Bureau of Street Services (StreetsLA) alone account for more than 56% of the $1.03 billion in liability payouts**. But because liability payouts are centrally budgeted and largely paid for through the City's General Fund, individual City departments lack the financial incentive to better manage these costs.

Liability costs are also concentrated in other ways**. 70% of total payouts come from three** public ("third-party") liability **categories**:

1) **dangerous conditions** like sidewalk trip-and-falls and street design/maintenance issues,
2) **civil rights violations** (such as false arrests or imprisonment) and **excessive or unlawful use of force**, and
3) **traffic collisions** caused by City employees.

Knowing what, where, why, and how liability incidents occur will help the City begin to mitigate these costs.

To reduce liabilities, the City (and organizations in general) can engage in the process of risk management to identify, evaluate, respond to, and monitor risks. For nearly 50 years, the City has made multiple attempts at the Citywide level to improve its management of risks. These efforts range from adopting its Risk Management Policy in 1981 to numerous mayoral directives, the most recent of which was issued in 2017 under the Garcetti Administration as Executive Directive 18 (ED 18).

Citywide risk management practices, and its shortcomings, to reduce third-party liabilities are the subject of this performance audit.

Because the City's centralized risk management responsibilities are found in their respective offices, for this audit we sought to work with:

- the City Administrative Officer (CAO), the City's Risk Manager, and

- the City Attorney's Office, the City's legal advisor and defense representative,

However, the City Attorney's Office did not cooperate with this audit, which limited our ability to evaluate its role and responsibilities in Citywide risk management. We also found that the CAO's Office has not been carrying out the broader oversight, training, operations, and reporting activities to mitigate liability claims that longstanding City law and policy requires.

As our audit details, **these deficiencies have likely resulted in higher costs for the City and unnecessary public harm**.

Key Findings

Although ED 18 remains the most current and authoritative direction for Citywide risk management, it is not being implemented. ED 18's Mayoral Risk Reduction Cabinet has remained inactive since COVID-19, departmental implementation of the directive's requirements has stalled, and the CAO has not fulfilled its responsibilities to monitor ED 18's implementation, report on its progress, and implement and maintain a risk management information system. On this last point, we found the $1.3 million spent on the CAO's risk system to be wasteful because it was not serving its intended purpose.

Despite decades of efforts, the City's citywide risk management process remains ineffective. Whether due to policy ambiguity and the City Attorney's ever-expanding role as the City's legal advisor and risk manager, or the CAO's failure to provide the oversight and analysis that aids departments and City leaders in decision-making, the second largest city in the country and the largest city in the county has been left with a risk management process that is not in alignment with the key features common to effective centralized risk management systems.

The City has other **major gaps in its risk management** practices, including:

- **A centralized** risk management **function in the CAO's Office that lacks the direction or clear authority to oversee liability mitigation** for the City
- The lack of **quarterly reporting by the CAO** on risk management activities **required by law**.
- **No City department is** really held **accountable for the liability payouts assigned to them, including the LAPD** which has the highest liability payout totals **because** there there is **no incentive or accountability for departments to keep liabilities under control** when liability payments are budgeted and paid for centrally and not through departmental budgets
- **No policy or framework** exists that clearly defines responsibilities, guides decisions, and coordinates between City entities.
- No **standardized citywide programs and education** to improve loss control practices designed to proactively mitigate risks and liabilities

Claim-related risk management activities can also improve.

- It is unclear if the City's claim administration processes meets standards
- **Corrective action reports** to address the cause of a claim **are incomplete and** their **implementation are not overseen at the Citywide level**
- **Reliability issues** affect the **usefulness of the City's liability claim data**

Budgeting and planning for the City's liability payouts needs to be revamped.

In the City, the CAO develops estimates for the Mayor's annual budget and includes an appropriation into the Liability Claims Account that pays for liability claims throughout the fiscal year. Our audit found the **City spent $394 million more than it budgeted for in liability payouts** between FY 2020 and FY 2025.

- Inaccurate and non-transparent liability budget estimates should be replaced with a transparent, data-driven, actuarial process

- The City **lacks a sound financial strategy to pay** for large liability claims

Key Recommendations

Our audit provides ten recommendations on how the City can strengthen its efforts to reduce risks and decrease liability costs in the years ahead.

These recommendations include**:**

- **Citywide** risk management **roles and responsibilities**
- Proper **oversight of departments**' risk management
- **Solutions** for current **data reliability issues** reporting on risk management, and holding departments accountable for losses
- Access to the claim and litigation data it needs for risk assessment and reporting purposes
- Better practices for mitigating harm (with assistance from the City Attorney)
- Better budgeting to fund liability claim payouts.
- Reassessing the City's plan for funding large liability payouts and exploring new financing strategies.

Because funding for liability payouts can be a complex topic, we urge the CAO and the City's leadership to carefully explore and evaluate its options. To assist with this effort, we are also publishing a supplemental white paper that provides more details.

From police brutality and constitutional overreach to catastrophic vehicle accidents across departments to broken sidewalks and inoperable street lights, City operations and employees cause devastating harm to Angelenos every year. The City must act now to better protect its residents and to limit the liability costs that this broken system has allowed to balloon. I call on the City's leadership and the CAO–who reports to the Mayor and City Council–to implement the recommendations in this audit so that the City can better protect the millions of residents and visitors it serves.

Finally, I would like to thank the CAO for their cooperation on this audit, and overall agreement with the report's findings. We look forward to working with the CAO's staff to follow up on their implementation of our recommendations.

Sincerely,



Kenneth Mejia, CPA

City Controller

TABLE OF CONTENTS

Executive Summary 3

Background 9

I. Design Gaps Weaken Citywide Risk Management 19

Executive Directive 18 on Risk Management Is Not Being Implemented 20

The Assignment and Authority of the City Risk Manager Should Be Clarified 24

II. Improving Claims-Related Risk Management 33

The City Should Require Periodic Audits of Liability Claims Administration 33

Reliability Issues Affect the Usefulness of the City's Liability Claims Data 35

The City Should Establish a Better Process to Address Claim Risks 39

III. Risk Financing Should Be Revisited 43

The City Should Improve Its Budgeting Process for Liability Payouts 44

The City Lacks a Resilient Plan to Pay for Large Liability Claims 48

Recommendation Table 55

CAO's Response to the Audit 58

Auditor Comments on CAO's Response 62

Objectives, Scope, and Methodology 64

Appendix A – Liability Payouts by Department 66

List of Figures

Figure 1. Liability Payouts Recently Reached a New Record of More than $280 million 9
Figure 2. The Projected Average Cost Per Claim for the City of Los Angeles Has Risen 12
Figure 3. Increases in Total Costs Have Been Driven By Large and Nuclear Liability Payouts 13
Figure 4. The Risk Management Process: Mitigating Rear-End Vehicle Accidents 15
Figure 5. The City Has Made Multiple Attempts to Improve Risk Management 18
Figure 6. Risk Management Framework Elements 20
Figure 7. Under ED 18, the City's Risk System Should Receive Claims and Litigation Data 23
Figure 8. Risk Management Process Elements 39
Figure 9. The Total Budget Deficit for Liability Payouts Exceeded $394M Over Six Years 45
Figure 10. The City Has Not Set Aside Reserves for $1.4 Billion in Outstanding Claims 49
Figure 11. Public Entities Often Layer Risk Financing to Reach Total Required Coverage 52
Figure 13. The CAO's Duties Include Addressing Departmental Liabilities 62

List of Tables

Table 1. Settlement Authorities Vary by Amount and Whether the Case Was Litigated 10
Table 2. The Top Three Categories of Liability Payouts Have Been Third-Party Liabilities 11
Table 3. Effective Risk Management Involves Many Decision Points and Stakeholders 14
Table 4. CAO Risk Management Division (RMD) Programs and Services 16
Table 5. Gaps in Departmental Implementation of ED 18 Requirements 22
Table 6. The Designated Causes in Claim Data May Not Be Accurate 37
Table 7. Risk Managers Mitigate Future Liability in LA County and Santa Monica 41
Table 8. The City Attorney's Office Did Not Propose a Liability Payout Budget until FY 2025 44
Table 9. The City Considered Judgment Bonds for Only 1% of the General Fund Budget 49
Table 10. The City Has Many Alternatives to Consider for Its Liability Payout Strategy 51
Table 11. Liability Claim Payouts by City Department 66

EXECUTIVE SUMMARY

The City is responsible for maintaining public spaces and providing essential services to Angelenos. These responsibilities and services carry inherent risks which may inadvertently harm residents or lead to financial losses. For example, firefighters and police officers respond to calls for service, including for life-threatening incidents that require emergency vehicles to rapidly travel through busy streets filled with pedestrians, cyclists, and vehicles. Millions of residents and visitors walk and drive on thousands of miles of sidewalks and streets that have not been adequately maintained by the City due to long-term planning and funding gaps.

When people are harmed by City operations or dangerous public infrastructure, the City incurs liability and must compensate those affected. **Between July 2020 and June 2025, the City paid out $1.03 billion in judgments and settlements to resolve liability claims and lawsuits.**[1] Common reasons for filing claims against the City include injuries from broken sidewalks and other dangerous conditions of public property ($320M), excessive use of force or other civil rights violations by police officers ($192M), and vehicle accidents ($180M).

To reduce the probability of harm to the public, and plan for and manage liability costs, organizations should implement risk management practices. As a process, **risk management is used to identify, assess, and address risk to reduce the likelihood of harm.** Organizations use risk control practices to mitigate risk, such as proactive employee driver safety programs to reduce vehicle accidents, or proactive inspection and maintenance programs to mitigate injuries from dangerous public property. Organizations can also purchase insurance to share or transfer risk to others.

As an organizational framework, risk management emphasizes the need for accountability, monitoring, and effective communication to improve results. To this end, the City has made multiple attempts over several decades to establish Citywide risk management practices. In 1981, the City adopted its Risk Management Policy, which established Citywide and departmental responsibilities. Subsequent additions to the City's risk management framework include new mayoral executive directives, Administrative Code updates, and other changes through the annual budget process.

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[1] The liability payouts included in this report are only for Council-controlled departments, and do not include the proprietaries: the Harbor Department, Los Angeles World Airports, and the Department of Water and Power.

In the City, the Office of the City Administrative Officer (CAO) and the City Attorney's Office are the primary entities responsible for managing third-party liability risks at the Citywide level. The CAO manages the City's central risk management function, and oversees contract review and insurance procurement processes. As the City's legal advisor and representative, the City Attorney's Office manages most claims and litigation filed against the City.

Between FY 2022 and FY 2025, the annual cost of liability payouts for the City more than tripled from $91.5 million to $282.5 million. While the sharp increase in liability costs is troubling, so too has been the City's inability to appropriately budget for liabilities. **For FY 2025, total liability costs ($282.5 million) exceeded the budgeted amount ($107.4 million) by over $175 million.**

Given the potential harms to the community and escalating cost of liabilities, the Controller's Office launched an audit of Citywide risk management practices in August 2025. We sought to answer the following primary questions:

- How effectively do Citywide risk management processes identify, evaluate, respond to, and monitor risks to reduce potential liability payouts?
- What governance, strategic, and communication issues hamper effective Citywide risk management?

The audit focused on risk management activities to manage third-party liabilities, which involve harms to members of the public. First-party liabilities, such as workers' compensation and employment-related matters, were excluded from the audit's scope. **The City Attorney's Office refused to cooperate with this audit, which limited our ability to ask questions and fully analyze the risk management processes and practices managed by their staff**. This limitation and its impacts are noted throughout the report.

What We Found

The City lacks sufficient accountability in its management of third-party liability risks. Underlying this deficiency are critical gaps in Citywide risk management oversight, reporting, and liability cost budgeting. These gaps leave the City exposed to potentially avoidable liability claim costs and budgetary uncertainty.

City departments are also expected to play an important role in managing their own risks. To address this in our audit, we briefly reviewed risk management practices at the Los Angeles Police Department and the Bureau of Street Services, the two departments with the highest liability payout totals. While both departments perform some risk management activities, they lack the financial incentive to manage their own risks because liability costs in the City

are centrally budgeted. **They also serve as case studies illustrating the need for a centralized and empowered risk management function to improve reporting, oversight, and accountability**.

International standards for risk management recommend that organizations establish a framework with clearly assigned roles, responsibilities, and accountability frameworks to ensure that risks are effectively mitigated. Measured against these accepted principles, we found that:

- The City has not implemented an accountability component into its management of risk to incentivize departments to consider and control their liability costs. **While other jurisdictions, such as LA County, have developed budgeting and reporting tools to hold departments accountable for increased liabilities, the City has not developed and implemented similar accountability mechanisms**. For example, there is no accountability mechanism in place to monitor the effectiveness of risk management programs at the Los Angeles Police Department or Bureau of Street Services, which are the two departments responsible for 56% of the City's liability payouts during our audit period.
- **The City lacks a risk management framework to clearly define roles and responsibilities, guide decision making, and coordinate actions between City entities.** Garcetti Executive Directive 18, issued in 2017 and still binding on departments, is the City's latest attempt to establish a framework. However, implementation efforts for this mayoral directive have largely ceased.
- The CAO's Risk Management Division (RMD) manages some critical risk management activities for the City, including contract review, insurance and bond compliance, and the attorney conflicts panel. However, significant gaps exist in RMD's efforts to manage Citywide risk for incidents that cause third-party liabilities. **The City's 1981 risk management policy requires the CAO to oversee departmental risk management programs, but RMD provides very limited oversight of these efforts. The CAO also failed to produce quarterly reports on risk management as required by the Los Angeles Administrative Code.**
- Our audit surveyed risk managers at departments with the highest liability payouts and found that City staff requested **stronger oversight at the Citywide level, better coordination and collaboration, increased training, and a regular forum to share best practices for managing risk**.

To adequately plan and budget for uncertain liability costs, many cities in California conduct studies to estimate annual liability payouts and maintain specific reserves to pay for

settlements and judgments. Despite these best practices existing in other jurisdictions, we found that the City's risk financing practices reflect the following significant gaps:

- **Between FY 2020 and FY 2025, the City spent $394 million more than it budgeted for in liability payouts.** The underlying process used by the CAO to develop annual budgetary estimates lacks transparency and has produced inaccurate projections. In addition, the City Attorney's Office's annual budget request package did not specify an amount for liability claims until FY 2025.
- **The City lacks a sound financial strategy to pay for large liability claims, and largely relies on annual budgeting to self-fund these payouts from the General Fund.** At times, the City has considered issuing judgment obligation bonds to obtain additional funding. Judgment bonds are high cost and may not align with the City's long-term financial needs, considering the other financial tools available to municipalities.
- **The City wasted $1.3 million on a risk management information system** that was intended to share liability data with City staff, but has not functioned properly. Despite these deficiencies, the CAO paid annual subscription fees for the past nine years until it canceled its system contract during our audit.

Industry standards recommend that organizations implement processes to assess, treat, and monitor identified risks. Conducting regular claims administration audits and maintaining reliable claims data also support effective risk management practices. Compared against these standards and best practices, we found:

- The City's Corrective Action Report (CAR) process to mitigate risks identified in claims and lawsuits suffers from significant challenges. **We found that CARs are sometimes incomplete or are not filled out altogether. In addition, no one at the Citywide level conducts oversight of CARs** to ensure that proposed corrective actions are implemented.
- **The management of claims data by the City Attorney's Office may not align with industry best practices.** The City Attorney's Office refused to confirm whether it undergoes periodic claims audits, and we identified several instances of inaccurate liability data using information from the City's Financial Management System.

What We Recommend

The City has a fundamental obligation to protect members of the public from harm and injury posed by City operations. In addition, the City must identify and effectively respond to risks to protect against unnecessary liability costs. As the City's designated Risk Manager, the

CAO should close the significant gaps in the City's risk management practices outlined in this report. Working with relevant City personnel as needed, the CAO should address the following:

To improve coordination between City entities and address potential inefficiencies,

- **Develop and propose an updated Citywide risk management policy and framework to the Mayor and City Council for adoption.** The framework should establish clear roles and responsibilities for the CAO and City Attorney for risk management, and **assign specific responsibilities for oversight and departmental accountability**, reporting, loss control, training, and maintenance of liability claim data.
- **Design and implement accountability mechanisms, such as chargebacks to departments and/or other financial incentives and performance measures, to improve departmental accountability for managing their liability risks.**
- Identify the funding, staff, and reorganization needed to execute the newly clarified responsibilities.
- Resolve data access issues so that the City's Risk Manager can assess and report on liability risk.

To ensure that the City is properly managing claims, liability data, and risks identified through the claims and litigation process,

- **Address data reliability concerns regarding the City's liability data.** Consult and collaborate with City Attorney staff, department risk managers, and actuaries to identify data gaps and ensure that information is accurate, reliable, and meaningful.
- **Develop a new risk management process to address risks identified through the claims process in a timely manner.** The process should include sufficient guidance to departments, clear timelines, and adequate oversight and reporting mechanisms.

The City Council should also request or require the City Attorney's Office to allow an independent, qualified claims auditor to periodically audit its claims administration.

To strengthen the City's financial planning for liability costs,

- **Establish procedures to more accurately estimate and budget for liability payouts.** The procedures should include steps for obtaining estimates from actuarial analysts at higher confidence levels, and budgeting for liabilities based upon those estimates.
- **Reassess the City's self-insurance model and evaluate alternative funding strategies**, such as specific reserves for liabilities and captive insurance companies. Based upon the results of the assessment, **propose a new risk financing strategy for funding liability payouts for the Mayor and City Council's adoption**.

- **Establish a recurring process to review the City's risk financing strategy** to ensure that the strategy is cost-effective and aligns with the City's risk management goals.

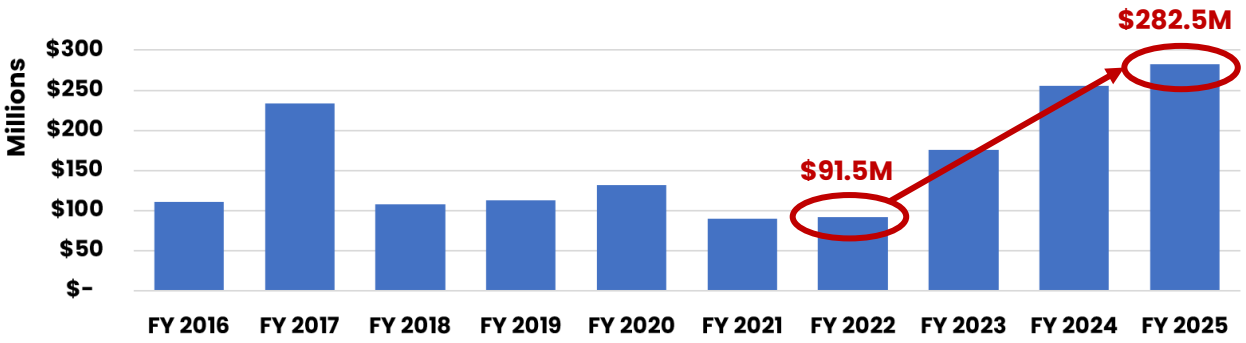
The City has an opportunity to strengthen its risk management practices, and in doing so better protect its residents from harm and shield itself against financial instability. Risk management is an iterative process, one that requires the City to learn from past experience and refine its practices over time to mitigate risks and reduce liability costs. By implementing the recommendations included in this report, the City can better position itself to effectively respond to risk and reduce the strain of liability costs on its finances.

BACKGROUND

Cities are expected to deliver a wide range of services to the public. Many of these responsibilities, such as responding quickly to public safety emergencies or properly maintaining streets and sidewalks, carry inherent risks that may cause harm, injury, or loss to members of the public.[2] When a dangerous condition of public infrastructure results in injury, or when government employees harm people or damage property, public entities are liable and must compensate those that are impacted.

As a large public entity with more than 50,000 employees and over $95 billion in assets, the expectations and liability risks for the City are significant. Given its wide scope of responsibilities, the City incurs millions of dollars in liability costs each year. However, annual liability costs for the City have more than tripled over the last three fiscal years, from $91.5 million in FY 2022 to $282.5 million in FY 2025.

Figure 1. Liability Payouts Recently Reached a New Record of More than $280 million



Source: Analysis of Liability Payouts from the City's Financial Management System.

To reduce their liabilities, the City (and organizations in general) engage in the process of risk management to identify and assess potential exposures, implement proactive techniques to reduce the frequency and severity of losses (commonly known as "loss controls"), and monitor the effectiveness of those actions over time. Within the City, the Office of the City Administrative Officer (CAO) and the City Attorney's Office are the two primary entities involved with implementing Citywide risk management practices.

[2] An action (or failure to act) that results in injury or harm is legally defined as a "tort." Torts are governed by civil law, and focus on establishing liability, providing relief or compensating injured parties, and deterring future misconduct.

In response to the recent spike in the City's liability costs, the Controller's Office launched an audit of Citywide risk management practices, and sought to answer the following questions:

- How effectively do Citywide risk management processes identify, evaluate, respond to, and monitor risks to reduce potential liability payouts?
- What governance, strategic, and communication issues hamper effective Citywide risk management?

The audit focused on harms caused to members of the public (third-party liabilities) and Citywide risk management practices between FY 2020 and FY 2025. First-party liabilities, such as workers' compensation and employment-related matters, were excluded from the audit's scope. Risk management at the departmental level was considered, but was not the primary focus. **Of note is the refusal by the City Attorney's Office to cooperate with this audit, which limited our ability to evaluate the Citywide risk management processes that they manage.** Where relevant, this limitation and its impacts to the audit are noted throughout the report.

Claims and Litigation Against the City

The public can submit a claim against the City online, by mail, or in person with the Office of the City Clerk. The City Attorney's Office investigates each claim, and may reject it or offer a settlement if the City is likely liable. If the claimant disagrees with the decision, they may choose to file a lawsuit against the City seeking damages in court.[3] After a settlement is accepted or court judgment issued, the approval authority within the City involves the Mayor, Council, and City Attorney, and varies by amount and whether the case was litigated.

Table 1. Settlement Authorities Vary by Amount and Whether the Case Was Litigated

Settlement Authority	Amount		Description
	Claim	Litigation	
Mayor	$50,000 or less		Authority delegated to the City Attorney
Claims Board	Not Applicable	$50,001 to $100,000	The Mayor, Council President, and City Attorney each appoint one of the Board's designees
City Council	>$50,000	>$100,000	Recommended by Claims Board with approval subject to Mayoral veto and Council override
	Not Involving Money		

Source: Analysis of City Charter section 273(b) and Los Angeles Administrative Code section 5.173

[3] Certain cases can bypass the State's requirement for a formal claim prior to litigation. For example, federal civil rights lawsuits alleging excessive force or unlawful search/seizure can be filed directly in court without a prior claim.

After receiving approval, settlements and judgments for Council-controlled departments are processed by the City Attorney's Office to be paid from the City's Liability Claims Account.[4] These claims are typically funded by the General Fund, except for claims attributed to the Bureau of Sanitation, which are paid for using their special funds.

The City's annual liability payouts increased from $89.2 million in FY 2021 to $282.5 million in FY 2025. As shown in **Table 2**, the three leading causes were types of third-party liabilities, which make up almost 70% of total payouts: dangerous condition (sidewalk trip-and-falls, street design/maintenance, etc.), civil rights violations (e.g. false arrests or imprisonment) and excessive/unlawful use of force, and traffic collisions.

Table 2. The Top Three Categories of Liability Payouts Have Been Third-Party Liabilities

Category	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Total
Dangerous Condition	$41.4M	$26.8M	$28.4M	$51.2M	$84.2M	$88.4M	**$320.4M**
Civil Rights/ Use of Force	$19.2M	$11.6M	$21.6M	$18.9M	$51.0M	$69.8M	**$192.1M**
Traffic Collision	$21.0M	$36.6M	$20.5M	$11.2M	$40.6M	$50.2M	**$180.1M**
Labor and Employment	$30.9M	$2.6M	$10.6M	$12.7M	$27.5M	$30.2M	**$114.6M**
Other Categories*	$19.3M	$11.6M	$10.3M	$81.3M	$52.5M	$43.9M	**$218.9M**
Total	**$ 131.8M**	**$ 89.2M**	**$ 91.5M**	**$ 175.2M**	**$ 255.8M**	**$ 282.5M**	**$1.03B**

Source: Analysis of liability payouts from the City's Financial Management System.

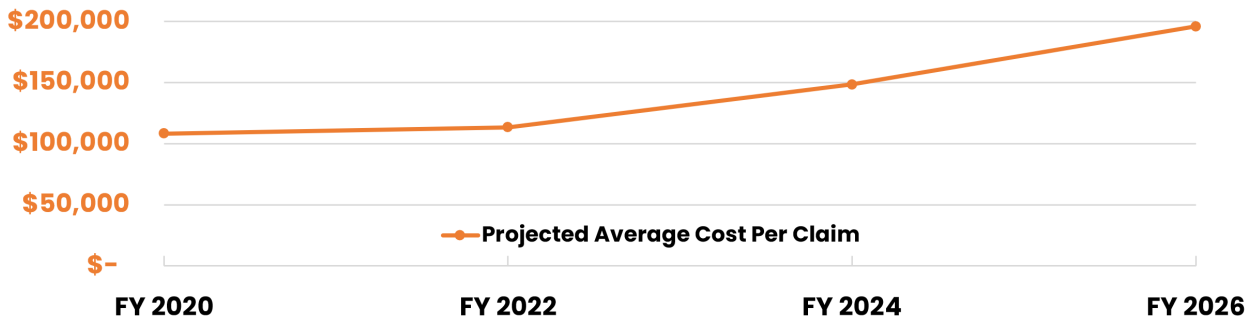
*Other categories include general municipal law, professional negligence, land use/real property/environment.

Although liability payouts generally do not come out of departmental budgets, department activities can have a large financial impact. Liability payouts attributed to the Los Angeles Police Department (LAPD) and the Bureau of Street Services (StreetsLA) ($576M) account for more than 56% of the total shown in Table 2 for FY 2020 through FY 2025. For reference, the six-year average for LAPD and StreetsLA liability payouts ($96M) is more than the annual budget of several public-facing City departments, including the Departments of Animal Services, Cultural Affairs, and the Zoo.

[4] Council-controlled departments exclude the proprietary departments (the Harbor Department, Los Angeles World Airports, and the Department of Water and Power) which have control over their own funds.

Higher annual liability costs for the City have been driven by an increase in both the frequency and severity of claims. According to the City's tort liability studies, the total number of open claims increased 79%, from 3,224 at the end FY 2019 to 5,782 in FY 2025, while the average cost per claim projected for the following fiscal year increased by 81%, from $108,387 for FY 2020 to $196,029 for FY 2026 (**Figure 2**). **By contrast, a statewide estimate for the average cost per claim for other public entities in California was about $129,000 in FY 2026, meaning that the City's average cost is about 52% higher**.[5]

Figure 2. The Projected Average Cost Per Claim for the City of Los Angeles Has Risen



Source: The City's Tort Liability Actuarial Studies Completed for Fiscal Years 2019, 2021, 2023, and 2025.
Note: The City's tort liability studies exclude certain case types, such as claims caused by the Bureau of Sanitation.

One of the primary drivers of higher annual liability payout totals was a sharp increase in "Nuclear" and "Very Large" payouts made by the City between FY 2023 and FY 2025 (**Figure 3**). "Nuclear" payouts are for amounts greater than $10 million, while "Very Large" payouts range between $1 million and $10 million.[6] Behind each liability payout is an example of a breach in the City's responsibilities to the public. Examples of these failures include:

- LAPD officers found liable for **excessive and unreasonable force** in the 2017 death of a 32-year-old resident, which led to a **$23.8 million jury award** in 2023 to their surviving mother;
- a Bureau of Contract Administration employee who rear-ended a resident at their stalled vehicle in 2017 and caused a double-leg amputation, which led to a **$23 million settlement** in 2020; and

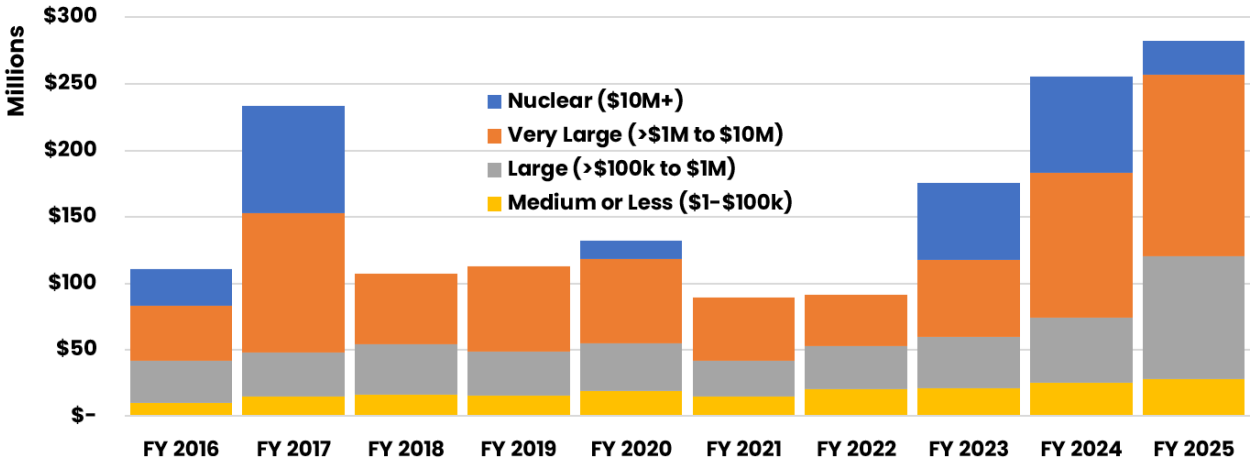
[5] This estimate comes from the California Association of Joint Powers Authorities, who worked with Polco (a private data analysis company) to collect and analyze tort liability data from over 1,500 public entities in the State, including 86% of counties and 86% of cities.

[6] The International Risk Management Institute defines a nuclear verdict as a jury award that exceeds $10 million.

- the dangerous condition of a street lighting pole that caused a traumatic brain injury to a 59-year-old resident in 2020, which led to a **$21 million settlement** in 2024.

These cases also illustrate the potentially long timeline between the incident and settlement or jury verdict.

Figure 3. Increases in Total Costs Have Been Driven By Large and Nuclear Liability Payouts



Source: Analysis of liability payouts from the City's Financial Management System.

Note: The City Attorney's Office did not respond to our request for claims data. The payment data shown above include some claims with multiple payouts that may be spread across more than one fiscal year.

However, the rise in large payouts is not unique to Los Angeles. For example, the City of Bakersfield agreed to a $22 million settlement in February 2026 for a 2023 car accident involving a police officer. In December 2025, the San Diego City Council approved a $30 million settlement for a wrongful death case stemming from an officer-involved shooting that occurred in January 2025.

According to municipal insurance experts, "nuclear judgments" in the U.S. increased by 52% in 2024 compared to the prior year. This spike was driven by a number of factors, including "social inflation," which refers to shifting cultural attitudes that lead juries to award large payouts against big organizations. Unlike many states, California lacks a liability damages cap to protect public entities from these large awards. The increasing frequency and severity of third-party liabilities underscores the need for governments to implement effective risk management practices that prevent public harms and control liability costs.

What is Risk Management?

Risk management is a systematic process used to identify, assess, and address risks facing an organization (**Table 3**). Through the risk management process, risk managers can potentially decrease the likelihood and magnitude of harms to an organization, its employees, and its stakeholders. Risk management takes form in a variety of organizational practices, with the intention of avoiding, retaining, controlling, or sharing risk.

For example, local governments may implement risk control practices, like proactive inspections and repairs to mitigate the risk of dangerous conditions on public infrastructure. Cities, counties, and other public entities may also purchase insurance, or explore other risk financing options, to transfer or share some of the risk of volatile liability costs with others.

Table 3. Effective Risk Management Involves Many Decision Points and Stakeholders

Element	Description of Process
Risk assessment	Includes identifying, analyzing, and evaluating risks. Factors to consider include sources and causes of risks, time-related issues, and the likelihood and magnitude of consequences.
Risk treatment	Includes selecting and implementing plans to reduce risks, allocating resources, and establishing reporting and monitoring requirements.
Monitoring and review	Improves the quality and effectiveness of the risk management process' design, implementation, and outcomes. Ongoing monitoring and review responsibilities should be clearly defined.
Recording and reporting	Ensures that processes and outcomes are documented and reported to improve risk management activities, provide information for decision making, and communicate outcomes.
Communication and consultation	Occurs throughout the process, giving stakeholders an understanding of risks, and encourages timely exchanges of information.

Source: International Organization for Standardization (2018) Risk Management — Guidelines (ISO 31000: 2018)

The example in **Figure 4** further illustrates how local governments can use the risk management process to proactively mitigate risks (specifically, vehicle accidents) and potentially lower liability costs.

Figure 4. The Risk Management Process: Mitigating Rear-End Vehicle Accidents



By assessing risks, collaborating with stakeholders to develop and implement a targeted treatment plan, and continuously monitoring and reporting results, organizations can gain greater assurance that its mitigation strategies are effective.

Risk Management in the City

Risk management practices to manage third-party liabilities are conducted at both the citywide and departmental level. The decision on where to place risk management responsibilities also influences how risk will be managed. For example, we found risk management responsibilities placed in differing functions at other jurisdictions, including the executive, human resources, financial, and legal offices. Within the City, centralized risk management responsibilities are found in the Office of the City Administrative Officer (CAO) and the City Attorney's Office.

The CAO's Risk Management Division

While the CAO holds a variety of responsibilities, its core function is to assist the Mayor and City Council with preparing and monitoring the City's annual budget.

The CAO's Risk Management Division (RMD), which manages the central risk management function for the City, is comprised of six Risk Managers, including one Director of Risk Management, and five additional support staff. Each Risk Manager is assigned to a specific group of City departments and reviews contracts for appropriate insurance and indemnification. The Risk Managers also provide additional risk management services and consultation as needed. CAO Risk Managers are also assigned to other duties and programs, including some of the main programs and services described in **Table 4**.

Table 4. CAO Risk Management Division (RMD) Programs and Services

Program/Service	Description
Contract review for insurance and indemnification	RMD reviews departmental contracts to ensure contractors carry adequate insurance and that agreements include proper language to indemnify the City. This transfers risk to the contractor should liabilities arise from their work on behalf of the City.
Insurance and bond compliance	RMD reviews insurance and bond submittals from contractors for compliance and appropriateness. In FY 2025, almost 20,000 Certificates of Insurance were processed.
Insurance procurement and management	RMD purchases and manages insurance policies in specific areas to limit the City's liability exposure. Some examples of insurance policies include coverage for the Los Angeles Convention Center and City helicopters.
Attorney Conflicts Panel (ACP)	RMD maintains a panel of outside law firms to manage cases where a conflict of interest precludes the City Attorney's Office from providing representation. Often these cases are related to police tort issues, employment, or workers' compensation matters.
Actuarial studies	RMD facilitates actuarial studies once every two years through a contractor. The purposes of the studies are to forecast the costs of tort liabilities and expected liability payouts for the City.
Risk Management Information System (RMIS)	RMD is responsible for the City's centralized RMIS. The system is supposed to provide City leadership with information on claims to assist with identifying areas for improvement.

City Attorney's Office

As the City's legal advisor and representative, the City Attorney's Office also plays an important role in risk management. Its Civil Litigation Branch, with more than 210 positions that include deputy attorneys, paralegals, investigators, and others, is responsible for managing claims and lawsuits against the City.[7] The Branch's Claims and Risk Management

[7] The City Attorney's Office did not respond to our request for the type and number of staff in their Claims and Risk Management Division.

Division investigates most claims and attempts to settle them. Claims that do not settle may go to court, which are generally handled by the attorney staff in the Civil Litigation Branch.

Since 2014, City Attorney staff has used CityLaw, its litigation management system, to manage claims and case data, including documentation, deadlines, and trial dates. As a best practice, City Attorney staff should update the system with an accurate case reserve for each case. These reserves are the estimated settlement value of an open case, which could include medical costs, lost wages, property damage, and the pain and suffering caused by the incident. Maintaining accurate case reserve data is particularly important for the City's actuarial studies to forecast future liability costs.

Along with managing claims and litigation, City Attorney staff provide risk management-related reports and advice to departments. The Claims and Risk Management Division analyzes trends and provides reports to departments regarding their liability payouts.

The City Attorney's Office also works with departments to produce Corrective Action Reports (CARs), which are part of the settlement authorization process for claims and litigation worth over $50,000. CARs include a summary of the case, the department's proposed corrective actions to reduce the risk of future liabilities, and scheduled completion dates.

Finally, the City Attorney's Office processes payments for settlements and judgments. As a primarily self-insured entity, the City's annual budget includes an appropriation into the Liability Claims Account. The City Attorney's Office is responsible for administering this account to pay for liability claims throughout the fiscal year.

Departmental Risk Management Units

While the CAO and the City Attorney have Citywide risk management responsibilities, individual departments manage their own operational risks. Larger departments, like LAPD and StreetsLA, have dedicated risk management units to address liability issues. Smaller departments, such as the Information Technology Agency, may assign risk management to staff as a collateral duty.

Department risk managers respond to information requests from City Attorney staff related to claims and litigation, review liability reports from the City Attorney's Office, and complete Corrective Action Reports as needed. Below are two examples of department and bureau risk management entities and some of their practices:

- **LAPD's Risk Management and Legal Affairs Division** staff work with the City Attorney's Office in police litigation cases. LAPD's Risk Management Division staff use the TEAMS II system to provide department management with information on officers that may

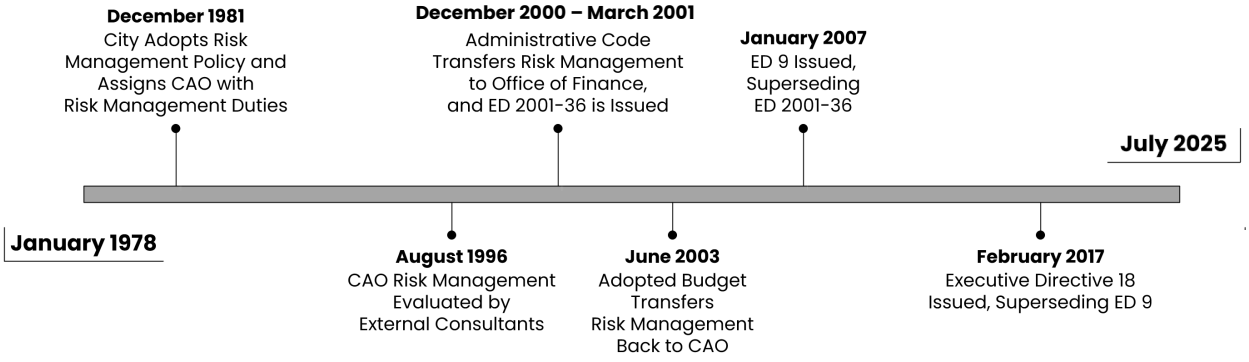
pose risks to the department.[8] Staff also conduct trainings and review policy changes to reduce risks.

- **StreetsLA's Risk Management and Safety Section** addresses claims and litigation, occupational health and safety, workers' compensation issues, and commercial vehicle training for the bureau. StreetsLA has a risk and liability repair crew that repairs streets and sidewalks to reduce liabilities. StreetsLA also maintains a Commercial Vehicle Training Program to develop drivers of large vehicles and ensure safety.

The City Has Made Multiple Attempts to Better Manage Risk

Effective risk management requires coordination, collaboration, clear roles and responsibilities, and shared goals across all City departments, bureaus, and offices. Since the late 1970s, the City has made several attempts to embed a risk management framework into the City's organizational structure. Over the past four decades, the City has adopted policies, changed the Los Angeles Administrative Code, conducted several studies, and issued executive directives to guide City staff in addressing risks and reducing liabilities.

Figure 5. The City Has Made Multiple Attempts to Improve Risk Management



Garcetti Executive Directive 18 (ED 18) is the City's latest attempt to establish a framework to coordinate its risk management efforts. Released in February 2017, ED 18 established a Mayor's Risk Reduction Cabinet comprised of representatives from the Mayor's Office, the CAO, and City departments and bureaus. The directive also outlined several requirements for the CAO related to monitoring, reporting, and oversight.

[8] LAPD's Training Evaluation and Management System (TEAMS) II is used to monitor data on officer complaints, out-of-policy uses of force, out-of-policy pursuits, preventable traffic accidents, and other performance issues.

Summary of the Audit's Objectives and Methodology

This audit report evaluates the effectiveness of the City's current risk management framework and practices for reducing liability claims, examines the usefulness and reliability of the City's risk management data, and compares the City's practices against the risk management practices of other jurisdictions. We include recommendations on how the City can strengthen its efforts to reduce risks and decrease liability costs in the years ahead.

I. Design Gaps Weaken Citywide Risk Management

The City's decades-long efforts to manage third-party liability risks have produced mixed results, leaving Citywide risk management efforts less effective. The most recent initiative, ED 18 issued in February 2017, sought to modernize risk management in the City by assigning new duties to the CAO and other departments. **However, its core component, including a new management and accountability framework centered around the Mayor's Office, was not fully implemented, and active efforts to fulfill the directive's goals have largely ceased**.

But even without the executive directives, the CAO may still have the authority to serve as the City's Risk Manager. In 1981, the City Council adopted its statement on the City's Risk Management Policy, and formally assigned the CAO with the overall coordination of the City's risk management program. In addition, the Los Angeles Administrative Code requires the CAO to provide risk management services and report on its activities. However, the CAO's actual authority as the City's Risk Manager has been obscured by at least three factors:

- **Policy Ambiguity**: uncertainty regarding the current standing and relevance of the City's 1981 Risk Management Policy;
- **Executive Overlap**: shifting roles under various mayoral executive directives; and
- **Jurisdictional Expansion**: the City Attorney's expanding responsibility as both legal advisor and risk manager.

With each successive initiative, a recurring and fundamental question that should be asked is: "**Who is responsible for managing risk, and how should it be managed at the departmental and Citywide level?**" While the answers to these questions should naturally evolve to meet the City's changing needs, industry standards, and best practices, both the clarity of the assigned roles and the effectiveness of their implementation have remained problematic.

Until the City formally defines this role, assigns it to a specific entity, and establishes clear accountability, Citywide risk management will remain a concept without a functional institution to execute it, leaving third-party liabilities and financial losses poorly mitigated.

Executive Directive 18 on Risk Management Is Not Being Implemented

As seen in **Figure 6**, international guidelines outline several important elements that are necessary to the development of an effective risk management framework. Based on our review, ED 18's design and its initial roll out exhibited several of these elements. For example, as an administrative policy issued by the City's Chief Executive Officer, ED 18 articulated and conveyed a renewed commitment to managing risk in the City.

Figure 6. Risk Management Framework Elements



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Structurally, ED 18's design established new lines of accountability by assigning specific risk management responsibilities. By requiring departments to implement protocols and practices to reduce risks and liabilities, the directive made it clear that departments were the primary owners of risks arising from their operational and program responsibilities. At the same time, the CAO was tasked with monitoring and reporting responsibilities to support ED 18's overall implementation.

Beyond its status as a mayoral directive, ED 18 was, at least initially, also integrated into the City's unique governance and organizational structure, as it incorporated the City Council and City Attorney in its drafting and initial roll out. While these elements of design and integration provided ED 18 some early traction, the City's commitment did not persist. As discussed below, the Directive's initial momentum did not result in its sustained implementation, evaluation, and improvement.

ED 18's Mayoral Risk Reduction Cabinet Has Remained Inactive

The Mayor's Risk Reduction Cabinet was intended to be the institution to champion risk management in the City. The Cabinet, which was chaired by the Deputy Mayor for Budget and Innovation, also included representatives from the Departments of Police, Fire, Building

and Safety, General Services, Personnel, Recreation and Parks, Sanitation, StreetsLA, Transportation, and the City Administrative Office. The Cabinet was responsible for a number of important and ambitious leadership activities, including:

- setting risk management priorities, goals, and objectives for the City;
- directing the development of Citywide and department risk management policy;
- driving the analysis of risk trends and corrective action throughout the City;
- coordinating and directing risk management functions throughout the City;
- supporting departments in developing and implementing risk reduction strategies;
- identifying resource needs to reduce and prevent specific risks, and
- developing a protocol for department heads to submit an annual risk management report, featuring performance analysis and a plan for the upcoming year.

However, interviews with departmental risk managers and other City staff suggest that the Risk Reduction Cabinet met only a handful of times after ED 18 was issued in February 2017. Risk Reduction Cabinet meetings apparently ceased entirely at the onset of the pandemic in March 2020. **Consequently, these critical Citywide risk management and oversight activities have lapsed, creating negative effects for ED 18's implementation**.

Departmental Implementation of ED 18 Requirements Has Stalled

Without the Risk Reduction Cabinet's leadership and oversight, departmental implementation of ED 18's risk management requirements has stagnated. **This breakdown was evident at LAPD, where risk management staff were not familiar with ED 18 at the start of this audit.** Although this audit is mainly focused on Citywide risk management, we surveyed risk managers from the top 15 departments based on their total liability payouts and found inconsistent adherence to ED 18 requirements, as shown in **Table 5**.[9]

For example, ED 18 requires departments to develop an internal protocol to ensure the completion of an early and thorough investigation of a claim assigned to them. However, only 10 of 15 departmental risk managers reported having protocols to investigate claims and lawsuits in a prompt and thorough manner. Further, only 9 out of 15 departments indicated that they had established department-specific loss control practices, or tracked the implementation of corrective actions.

[9] These top departments selected were LAPD, StreetsLA, Sanitation, Transportation, Housing, Fire, Recreation and Parks, Street Lighting, Contract Administration, Engineering, Finance, Animal Services, General Services, City Planning, and the Information Technology Agency. See Appendix A for a breakdown of liability payouts, ranked by department.

Table 5. Gaps in Departmental Implementation of ED 18 Requirements

Survey Questions Related to ED 18 Requirements for Departmental Risk Managers	Respondents Answering:	
	Yes	No
Designated Chief Risk Officer?	15 (100%)	0
Developed investigation protocols?	10 (67%)	5
Developed loss control practices?	9 (60%)	6
Tracked corrective action implementation?	9 (60%)	6

Source: Analysis of the departmental risk manager survey results

The self-reported data is itself concerning. Loss control practices are designed to proactively mitigate risks and liabilities, while corrective actions, developed in response to issues identified in a specific claim or lawsuit, are meant to prevent the recurrence of known issues. The fact that nearly half of the City's highest-liability departments are not consistently applying these practices suggest that third-party liability risks are higher than necessary.

The CAO Also Has Not Fulfilled Its Risk Management Responsibilities Under ED 18

In addition to providing administrative and analytical support and expertise to the Risk Reduction Cabinet, **the CAO was assigned the following responsibilities under ED 18, none of which have been fulfilled:**

- monitoring the implementation of the risk management components of ED 18, reporting progress to the Deputy Mayor for Budget on a quarterly basis;
- implementing and maintaining the City's risk management information system; and
- providing department heads with annual in-depth reports on departmental risk-management efforts and performance.

CAO risk management staff explained that they lack adequate resources to monitor departmental implementation of ED 18. CAO staff noted that they have not produced the required annual risk management and performance reports for department heads because of issues with their risk management information system, which had been in place since 2016. As a result, department managers, and other decision-makers and stakeholders have spent nearly a decade without the information needed to improve risk management activities.

Further Spending on the City's Risk System Is Wasteful Until Data Issues Are Resolved

Riskonnect, the risk management information system the CAO began using in 2016, was supposed to play an important role under ED 18's "data-driven approach to worker safety and

risk management." As seen in **Figure 7**, ED 18 envisioned Riskonnect as a repository that would integrate data from multiple sources, including CityLaw, the litigation management system that the City Attorney's Office uses to manage claims.

Under the ED 18 framework, departments were responsible for data entry and updates in the new risk management system. Meanwhile, the CAO was tasked with using Riskonnect to analyze claim data for the annual risk performance reports it was supposed to produce for department heads.

Figure 7. Under ED 18, the City's Risk System Should Receive Claims and Litigation Data



Source: Adapted from an image on the City's ED 18 website: riskreduction.lacity.org

However, according to CAO staff, their ability to use Riskonnect was hampered by inaccurate and incomplete data, which stem from a faulty data feed from CityLaw. With this data feed issue in mind, we conducted a limited review of Riskonnect data and held interviews with CAO staff. We observed and identified several deficiencies, including:

- truncated narrative fields that resulted, for example, in incomplete case descriptions;
- missing data points, such as for case settlement amounts; and
- stagnant data, where information ceased being fed into the system after April 2025.

Because of the data feed issues, Riskonnect was not used as the claim management and reporting system it was designed to be. Instead, CAO risk management staff only used the system to track information about properties owned by the City, and administer attorney conflicts panel cases. Because the City Attorney's Office uses CityLaw to manage claims, while the CAO was unable to use Riskonnect to analyze and report on claims, the risk management system's value was, at best, questionable.

Issues related to Riskonnect's utility are also complicated by the CAO's lack of control over the system and its use. While the CAO is responsible for implementing and maintaining the City's risk management information system, the Riskonnect contract lists the City Attorney's Office as the City's primary representative, and states that "the City Attorney will retain control and oversight of the agreement, and the CAO will pay for, and utilize the system." **Indeed,**

between June 2016 and June 2025, the CAO paid more than $1.3 million for its cloud-based subscription to Riskonnect.

When asked why the City Attorney retains control and oversight of the Riskonnect contract, CAO staff stated that the data within the system belongs to the City Attorney's Office, and the City Attorney's control over the contract gives them the authority to terminate sharing their information if they determine that it should no longer be shared or managed in Riskonnect.

At the same time, CAO staff added that the City Attorney's role primarily involved drafting, reviewing, and signing off on the legality of the Riskonnect agreement. Additionally, although the CAO, as the client department, may request modifications or updates to the contract, any formal changes would still require the City Attorney's review and approval, given their role as the contract's legal overseer.

The use case for Riskonnect is further diminished by the City Attorney's current project to replace CityLaw. However, the City Attorney's Office did not respond to our questions asking about the status of their CityLaw replacement project, and whether their new system would feed claims data into Riskonnect or another system used by the CAO. After bringing up these concerns during the audit, the CAO's Office stated during our September 2026 exit conference that it had canceled the contract with Riskonnect.

The Assignment and Authority of the City Risk Manager Should Be Clarified

The dysfunction surrounding Riskonnect is just one example of the CAO's diminishing influence over Citywide risk management.[10] Under the Los Angeles Administrative Code, the CAO's only explicitly defined authority as the City's Risk Manager is to set and oversee indemnification, insurance, and bond requirements and procedures for City contracts.[11]

However, the City's 1981 Risk Management Policy suggests that the CAO may still retain broader authority to oversee and coordinate the City's overall risk management program, **which should include activities to address liability claims against the City**. Given that mitigating liability costs was central to the City Council's intent in designating the CAO as the

[10] Later in this report, we discuss how the City Attorney's Office cited attorney-client privilege as their reason for not giving the CAO's Risk Management Division access to review corrective action reports.

[11] Los Angeles Administrative Code sections 11.47 to 11.56.

City's Risk Manager, the CAO arguably retains the authority to address liability claims as part of its current risk management program.[12]

The 1981 Risk Management Policy makes each department responsible for managing their own risks and coordinating with the CAO. Additionally, the 1981 Risk Management Policy assigns the CAO with a prominent role by designating the office with the overall coordination of the Citywide risk management program. To implement its intent, the CAO Risk Manager's authority and responsibility under the 1981 Risk Management Policy include:

- **Oversight**: reviewing the risk management program of each department and advising them in the area of risk management and insurance;
- **Training**: educating City personnel in risk management and its importance to the City;
- **Operations**: developing Citywide risk management programs when such centralized programs will benefit the City;
- **Reporting**: preparing periodic reports to the Mayor and Council on the status of risk management within the City; and
- **Standards**: preparing and maintaining a comprehensive procedural manual on risk management and insurance for distribution to all City departments.

Some of the CAO's current risk management documentation (including their 2012 procedure manual and their brochure that was updated as recently as March 2026) still reference the City's 1981 Risk Management Policy, suggesting that it was still relevant during our audit scope. However, as discussed below, the practical status of the City's 1981 Policy is obscured by more recent developments in the City's approach to managing claim liabilities.

In addition, the CAO risk management group is currently more focused on other risk management activities, such as reviewing departmental contracts for indemnification and insurance compliance, procuring and managing insurance policies for City facilities, helicopters, and other assets, and administering the attorney conflicts panel. **While these activities are an important aspect of the overall risk management function, our audit has also confirmed that the CAO risk management group has not been carrying out the broader oversight, training, operations, and reporting activities to mitigate liability claims that was envisioned under the City's 1981 Policy**.

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[12] Legal changes in the 1960s and 70s removed key governmental immunities and expanded public entity liability. These changes also contributed to a contraction in commercial insurance, making coverage less affordable. In response, the City formed an advisory committee on risk management in 1978 (Council File 79-3194), which ultimately produced the Risk Management Policy Statement adopted by the City Council in 1981 (Council File 79-3194-S1).

The CAO's Authority to Manage Third-Party Liability Risks Is Not Well-Defined

Although CAO risk management documentation continues to cite and give credence to the City's 1981 Risk Management Policy, the policy's relevance in determining current roles and responsibilities for managing the City's third-party liabilities is unclear. During interviews with audit staff, CAO staff were initially unaware of the City's 1981 Risk Management Policy and were unable to explain its current relevance, including whether it was rescinded or superseded in light of more recent ordinances or executive directives. In later audit interviews, CAO staff asserted that they have been largely compliant with the 1981 Policy that they were initially unaware of.

During this audit's exit conference, CAO staff continued to disagree with our interpretation of the 1981 Risk Management Policy and the extent to which its office was historically given the authority to oversee the City's responses to third-party liability risks. CAO staff characterized their role in managing third-party liabilities as providing advisory support to departments when requested.

More recent ordinances and executive directives on risk management have been silent on the status of the City's 1981 Risk Management Policy, adding further ambiguity to the CAO's role and authority in managing the City's risks.

- **Administrative Code section 20.8(d)** (effective 2003) vaguely requires the CAO to "provide risk management services and assistance…," but specifically requires quarterly reporting on the Office's risk management activities. However, neither the code section nor its legislative history clarifies if this ordinance was intended to replace or supplement the responsibilities and authority granted by the 1981 Policy.
- **Mayoral executive directives on risk management** do not conflict with Administrative Code section 20.8(d) if they are read as new, added responsibilities. However, the directives created new reporting requirements and oversight frameworks that were centered around the Mayor's Office, which appear to diminish the CAO's central role in risk management as envisioned under the 1981 Policy.

A potential jurisdictional overlap by the City Attorney's Office may also be eroding the CAO's role and authority to review third-party liability risks.[13] During our review, we found that the City Attorney's Office expanded its risk management activities in the following ways:

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[13] Because the City Attorney's Office did not cooperate with this audit, we could not evaluate whether or how it analyzes risks and makes recommendations to reduce liability, or had developed proactive risk management programs and corrective action procedures to address litigation against the City.

- **The Risk Management Unit within the City Attorney's Office** (since at least FY 2015) has been tasked with identifying and analyzing trends in litigation and developing recommendations to reduce future incidents.
- **An Assistant City Attorney with private sector risk management experience** was hired on or before February 2016 to lead the newly formed Claims and Risk Management Division within the City Attorney's Office.
- **The City Attorney's Risk Management Division expanded in FY 2017 and FY 2019** when a total of seven resolution authorities were added "to address litigation against the City through the development of proactive risk management programs and corrective action procedures." These seven positions were regularized and added to the City Attorney's baseline budget in the FY 2026.

These functions blur the lines of responsibility, as they can be interpreted to coincide with the CAO's power and duty to "provide risk management services and assistance, including studies, reports, analyses, assessments and recommendations with respect to risks and potential liabilities presented by the operations, practices and conditions existing in the various City departments."[14]

However, the City Attorney's dual role as legal advisor and risk manager presents some unique governance issues. As an elected official, the City Attorney is often "requested," rather than directed or instructed, by the Mayor and Council to perform a task. This aspect of the City's governance culture became apparent in the only meeting we had with City Attorney staff in the Civil Litigation Branch, who questioned whether the Council could instruct or require their Office to provide reports on liability claim data or modify corrective action reports.

Without a collaborative approach and support from the City's other elected bodies, the City Attorney's Office lacks the authority to manage and direct City departments. Meanwhile the CAO reports to both the Mayor and Council, and has at least some of its authority as the City's Risk Manager formally defined in policy and the Administrative Code.

The audit's survey results of department risk managers further underscore the lack of clarity around roles and responsibilities for Citywide risk management. **When asked which entity (CAO, City Attorney, or Personnel) they would interact with for loss prevention and loss control assessments, 9 out of 15 risk managers answered "Not Sure."**

[14] Los Angeles Administrative Code Section 20.8(d).

To move forward, the City must formally clarify the ambiguities regarding which entities are responsible for Citywide risk management, and for which specific activities, to ensure accountability and effective development of the program.

The City Is Missing Several Important Features of a Centralized Risk Management Function

The result of this haphazard evolution is that the City's 1981 Risk Management Policy and subsequent Citywide risk management initiatives are underdeveloped and have not been fully implemented. For this reason, the City's management of third-party liability risks is missing several key features.

Oversight of Departmental Risk Management Programs: Just as the CAO's Office monitors department budgets and addresses overspending through the financial status reporting process, a centralized entity should be responsible for overseeing departmental risk management efforts. As described in the textbox below, the need for this oversight is demonstrated by the high liability payouts attributed to LAPD, and the department's handling of its risk management initiatives.

Case Study: Lack of Results from LAPD's Risk Management Initiatives

In FY 2025, $69.4 million in payouts attributed to LAPD were for "Civil Rights/Excessive Use of Force" cases, while traffic collisions involving LAPD employees resulted in $37.1 million in payouts. These two payout categories for LAPD represented 38% of the City's liability payouts for FY 2025.

In 2015, LAPD issued its **Risk Management and Harm Reduction Strategy,** which also identified "use of force incidents" and "employee-involved traffic collisions" as two liability areas in greatest need of intervention at the department. The strategy document indicated that LAPD would create new teams and implement new systems in an effort to reduce physical, organizational, and financial injuries. **LAPD's Strategic Plans for 2021-2023** and **2023-2025** also included additional initiatives to respond to these same liability risks through additional analysis and new policies and training.

However, as part of our follow up for this audit, **LAPD staff could not produce evidence of tangible outcomes or measurable improvements in use-of-force incidents or traffic collisions that were supposed to result from the department's risk management initiatives**. These gaps in execution mirror those at the Citywide level, and illustrate the importance of reporting, oversight, and accountability for effective risk management.

Consistent monitoring by an entity with Citywide risk management responsibilities could have identified performance gaps like these earlier. **Doing so would better ensure that high-cost liabilities, such as excessive use-of-force and employee-involved traffic collisions for LAPD, are effectively assessed and mitigated by the department.**

Programs, Standards, and Education to Improve Loss Control: While certain risks are unique to specific departments, others (like vehicle collisions) can be managed with standardized loss control measures. Industry best practices consistently highlight several core safety strategies to manage these risks, including mandatory driver training, continuous driver monitoring, thorough post-accident investigations, and clear disciplinary processes. However, our survey of departmental risk managers found inconsistent implementation of vehicle safety practices across the City.

Through this survey and interviews with department risk managers, we also found that knowledge sharing was lacking in the City, such as the lack of a formal forum to compare risk management strategies and highlight successful practices among departments. For example, during our audit, we found that the Bureau of Street Services and Department of Recreation and Parks had implemented their own vehicle safety programs that may be worth highlighting for other departments in the City to learn from.

The results from our interviews and survey also provided some evidence that systemic issues, such as slow disciplinary procedures, could be undermining the effectiveness of attempts to manage risk.

An entity with Citywide risk management responsibilities could establish basic risk management standards and ensure that they are met, facilitate knowledge sharing, and identify systemic issues and solutions to be prioritized by the Mayor and Council.

Reporting on Risk Management Activities and Results: In 2000, the City Council considered enshrining the City Risk Manager's reporting requirement into the Charter itself, arguing that "worker safety and risk management issues can significantly impact the City. It is imperative that the Council is kept fully informed of on-going issues." This resulted in mandated quarterly reporting in the Administrative Code. **However, the CAO did not produce the required risk management reports during our audit period**.

To improve coordination, communication, and oversight, an entity with Citywide risk management responsibilities could also establish reporting requirements to and from departments. ED 18's approach to fulfilling this need was an annual departmental risk management report, that included the department's risk management progress and performance in the prior year, and plans to mitigate risk for the upcoming year.

LA County's CEO Has Institutionalized Many Central Risk Management Functions

The LA County Chief Executive Office's (CEO) Risk Management Branch provides a clear example of a centralized risk management function that appears to have many of the features listed above. Operating under the County Board of Supervisor's policies, direction, and authority, the CEO Risk Management Branch's responsibilities include:

- **Loss Control and Prevention**: operating a unit with risk management staff that meet regularly with their departmental counterparts to monitor claims, and review and advise on risk management efforts;
- **Planning**: requiring county departments to create annual risk management plans that identify issues and mitigation measures to be implemented;
- **Reviewing Performance**: scoring county departments on their risk performance, based on factors such as their completion of an annual risk management plan, other risk management activities, and their claims history;
- **Reporting**: issuing annual public reports on the state of risk management in the County, which includes a list of bottom-ranking departments from the previous fiscal year (based on the CEO's risk scoring methodology) and some activities undertaken by department staff to address risk;
- **Education**: developing and issuing best practice guidelines and other risk management educational materials for county departments, while also holding regular quarterly meetings with department risk managers to share best practices;
- **System Implementation**: implementing Riskonnect as their risk management system, requiring their third-party administrators to use the system to manage the County's liability claims, working with County Counsel to ensure that litigated claims are updated in the system, and developing claim dashboards and reports in Riskonnect for county departmental analysis; and
- **Monitoring corrective actions**: reviewing departmental corrective action plans for completeness and thoroughness, and monitoring departmental implementation.

We found that the County CEO's responsibilities had increased incrementally over time, demonstrating how they have continued to evolve in their management of risk. These advancements also highlight the existing gaps in the City's own risk management practices, and the need for the City to establish a stronger institutional framework to implement these missing features.

The City Lacks a Financial Mechanism to Incentivize Better Risk Management

One more feature of a centralized risk management function that the City should consider are accountability mechanisms to incentivize better risk mitigation. Accountability should be woven into a risk management framework. Currently, the City's centrally administered Liability Claims Account removes a critical financial incentive for departments to improve: direct financial impact on the department. **Because settlements and judgments for Council-controlled departments are centrally budgeted and paid for through the Liability Claims Account, individual departments are largely insulated from the financial consequences of their operational risks**.

Other jurisdictions that use financial accountability as part of their risk management framework include:

- **Los Angeles County**: Since at least 1996, LA County has utilized a system to allocate liability costs directly to individual departments. During the annual budgeting process, County Counsel provides estimates of "Judgments and Damages" to each department for the upcoming fiscal year. After the budget is adopted, departments are billed directly for all judgements, settlements, and associated litigation costs. To manage volatile expenses, the County also has a Judgment and Damages central reserve to fund Countywide cases, and cover potential deficits in department liability budgets. According to County risk management staff, when a department faces an unanticipated deficit due to increases in liabilities, departments will likely work with their County CEO budget analyst to determine if existing funding or appropriations can absorb the costs. If no internal funding is available, then the County CEO may decide to resolve the department's deficit using other County sources, including the Judgment and Damages central reserve.
- **The City of Anaheim**: Anaheim also allocates liability claim costs to its departments. According to Anaheim's risk manager, departments are charged an internal service fee based on factors such as payroll costs and historical claim costs. This internal fee funds Anaheim's liability claims, workers compensation program, and related costs for insurance coverage.

The City previously experimented with a similar model. From around FY 1995 through FY 1998, the City implemented an interdepartmental billing system that charged departments for support services and other costs, such as information technology and fleet services. To encourage better liability cost control, this interim chargeback system also billed each department for the actual cost of liability claims they incurred. Each department's liability

costs were budgeted and capped at a per-occurrence limit (similar to a deductible), based on historical claim costs. Any expenditures over the cap were paid directly from the City's central liability claims account.

However, the chargeback system for liability claims quickly revealed a number of issues. In a May 1997 report, the City's Steering Committee on Chargeback Implementation recommended ending liability claims chargebacks because:

- liability claim costs were difficult to predict and budget;
- departments had no significant input into the City Attorney's claims handling process and the allocation of claims responsibility; and
- the City did not provide sufficient funding for maintenance or repairs identified by departments as needed to prevent future liability incidents.

As we discuss later in this report, these three barriers remain active issues that the we recommend the City address by improving how it estimates and budgets for liability claim payouts, reviewing the effectiveness of its current claims handling process, and developing a new claim mitigation program.

This prior attempt reflects a historical effort to increase departmental accountability for their claim liabilities. Later in this report, we briefly explore how the City could re-introduce a similar system to incentivize better risk mitigation by departments. However, to successfully execute this and other initiatives, the City should begin by creating a stronger foundation for Citywide risk management.

Recommendations

To clarify responsibilities and establish a stronger framework for Citywide risk management:

1. The CAO should develop and propose an updated Citywide risk management policy and framework for the Mayor and City Council's consideration and adoption. This proposed risk management policy and framework should:
    a. Formally incorporate the City's organizational structure, explicitly acknowledging the CAO's reporting relationship to both the Mayor and City Council, while accounting for the independently elected status of the City Attorney and its role to provide legal advice and representation;
    b. Resolve existing uncertainties regarding the CAO's role, authority, responsibility, and access to information for overseeing and managing third-party liability risks for the City;

c. Designate Citywide risk management responsibilities, including the requirement to (1) design and implement accountability mechanisms, such as chargebacks to departments and/or other financial incentives and performance measures, to improve risk management at the Citywide and departmental level, (2) monitor and review department risk management programs, (3) establish centralized loss control programs, risk management standards and best practices, and training for departments, and (4) report on risk management activities at the Citywide and departmental levels;
d. Identify the funding and reorganization of risk management staff needed to appropriately reflect the newly clarified responsibilities.

2. The CAO, or other entity designated with Citywide risk management authority, should work with the City Attorney's Office to gain access to the claim and litigation data it needs for risk assessment and reporting purposes.

II. Improving Claims-Related Risk Management

Risk management assists with identifying and mitigating risk and reducing the costs of potential liabilities. Effective risk management practices include properly managing claims and litigation, maintaining and providing reliable data for analysts and decision makers, and implementing an effective process to respond to identified risks.

We found that the City's risk management processes and practices do not always align with industry best practices. The City's liability payout data, managed by the City Attorney's Office, has data reliability issues. Corrective Action Reports, which detail a department's proposal to correct problems that gave rise to a claim, are not always completed and lack centralized oversight. Additionally, it is uncertain whether the City Attorney's Office periodically undergoes claims audits to ensure proper claims management.

Similar to the findings regarding the City's broader risk management framework, claim-related processes suffer from gaps in data, reporting, and oversight. These deficiencies weaken the City's management of third-party liability risks, and likely result in higher costs for the City and unnecessary public harm.

The City Should Require Periodic Audits of Liability Claims Administration

Local governments commonly join a joint powers authority to share or pool risks and spread the financial impact of liabilities. Member governments often undergo audits of their claims and litigation handling. For example, the cities of San Diego and Sacramento, along with

about 100 other public entities, pay a premium to the Public Risk Innovation, Solutions, and Management (PRISM) risk-sharing pool to obtain general liability coverage. They are required to undergo an independent claims audit at least once every two years to evaluate their performance against PRISM's Liability Claims Administration Standards.

As a collective alternative to commercial insurance coverage, risk-sharing pools often require claim audits because each member's claims can have a direct impact on the pool's fiscal health. By reviewing how a selection of case files have been handled, these audits provide an independent assessment of a member's claims handling against industry best practices. An audit can identify both the strengths of a claims administration program and also opportunities for improvement.

The Association of Governmental Risk Pools and the California Association of Joint Powers Authorities, the national and state associations for the risk-sharing pool industry, recognize the following as important elements to be evaluated during a claims audit:

- **Adequacy of investigations:** Auditors examine the completeness and timeliness of investigations, including whether a claim was promptly and thoroughly investigated.
- **Case reserving:** A case reserve is an estimate of the outstanding amount likely owed to a claimant. Auditors evaluate whether case reserving practices are reasonable, if reserves are updated regularly, and whether loss experience reports accurately reflect case reserve and payment data.
- **Documentation:** Claim files are reviewed to ensure proper documentation.
- **Litigation management:** A review of litigated claims is conducted to ensure that cases are adequately managed, with proper documentation.
- **Adequacy of communications:** Audits may also review whether claims administration staff adequately communicate with claimants and the client (the public entity).
- **Adequacy of staffing levels:** Auditors evaluate whether staffing levels are appropriate in relation to staff caseloads.

Once completed, auditors produce a report containing their findings and any identified deficiencies. The report provides recommendations, such as suggestions to improve the quality of investigations or case reserve accuracy.

While the City of Los Angeles does not participate in a risk-sharing pool, it should still periodically evaluate its claims and litigation practices to determine their effectiveness. We made multiple requests to the City Attorney's Office to determine whether they had claim handling standards, a policy requiring claims audits, and whether any such evaluations were

recently completed. The City Attorney's Office did not respond to our repeated requests or provide results from any recent internal reviews or performance evaluations.

In a June 2025 report to the City Council, the City Attorney's Office acknowledged that its staffing levels for claims and litigation were inadequate, noting that large caseloads exceeded recommended levels. While it may be true, adequate staffing is only one aspect of effective claims administration. The City Attorney's assertions could be better supported by an independent claims audit that also reviews other key aspects of claims administration such as case reserving, investigations, and litigation management.

Regular and independent claims audits are essential for assuring that the City's claims and litigation management align with industry best practices. Although claims administration is an inherently reactive risk management practice, strong claims management can help resolve cases at the lowest feasible cost.

Reliability Issues Affect the Usefulness of the City's Liability Claims Data

Maintaining useful and accurate liability claims data is critical to ensuring that the City can effectively respond to risks. Departmental risk managers rely on sound claims data to understand the risks facing their departments and bureaus, and where they should direct resources to reduce liabilities. Actuarial analysts depend on high quality data to accurately estimate the City's outstanding claim liabilities and project liability payout costs in upcoming fiscal years.

The City Attorney's Office manages the City's claim data in CityLaw, a case management database used by staff since 2014. In February 2016, the City Attorney's Office described the newly implemented system as having "enhanced reporting features" that would "improve City managers' ability to evaluate their liability data, determine their 'liability profile,' and identify their highest risk practices, conditions, and issues." The report also stated that staff at the time were being "trained on data input, to facilitate accurate, timely, and predictable reporting of litigation and liability data."

Unfortunately, CityLaw has not functioned as intended, creating data reliability concerns for the City's claims data. An assessment of CityLaw released by the City Attorney's Office in May 2024 found that system users reported multiple instances of values either saving incorrectly or failing to save altogether. The study also found that 90% of City Attorney staff interviewed maintained notes and documents about cases outside of the CityLaw system. With staff regularly storing case information outside of the system, this creates the potential for incomplete or inaccurate claim datasets when compiled from the system for analysis.

The City Attorney's Office has also reported on CityLaw's deficiencies in recent reports and budget documents. In June 2025, the City Attorney's "Litigation Cost Report" included a liability data table with a footnote stating, "The numbers in this chart are derived from our CityLaw system, which frequently provides incomplete information and needs to be replaced. The system has problems…" In addition, the City Attorney's FY 2026 Budget Request stated that CityLaw "has proven to be glitchy and error prone" and that the system "cannot provide complete financial, caseload, and risk management reporting."

The process to replace CityLaw with a new case management database is ongoing and is estimated to cost $6.5 million.[15] Until the system is replaced, the City will continue to lack a reliable database for managing claims and litigation data. Though CityLaw was described in 2016 as a system that would improve upon data reliability for the City, the system proved unreliable over time. The City should take steps to ensure that CityLaw's replacement is cost efficient and dependable for storing accurate case information.

The Liability Claims Data Process Should Be Improved to Assist Department Risk Managers

While CityLaw's technical deficiencies appear to contribute to significant data reliability concerns, other issues within management's control also impact the reliability of the City's claims data. City Attorney staff make decisions, implement processes, and input data that influence the accuracy of the City's data.[16] The following are three different decision areas where entries by City Attorney staff can impact data reliability:

- **Defining cause categories:** CityLaw contains data fields with categories for classifying the cause of cases, such as "Dangerous Condition – Tree" or "Traffic Accident – Rear Ended."
- **Selecting cause categories:** City Attorney staff review the facts of claims and litigated cases and select a cause category in CityLaw for each case.
- **Assigning responsibility to departments and bureaus:** City Attorney staff review case information and assign responsibility for each claim and litigated case to a City department, bureau or office in CityLaw.

[15] The City Attorney's Office did not respond to our request for information about the status and timeline of its CityLaw system replacement project.

[16] The City Attorney's Office did not respond to our request for existing data reliability assessments of CityLaw, or information about known reliability issues for case causes and other data fields in the system.

The international standard for risk management recommends that organizations engage in effective communication and consultation with all stakeholders throughout the risk management process. The standard also encourages the involvement of relevant stakeholders so that their knowledge and views are considered to improve awareness and foster informed risk management.[17]

According to City risk managers we spoke with, City Attorney staff did not engage in consultations with them when defining cause categories, selecting causes for cases, or assigning departmental responsibility for cases. Department staff expressed confusion and frustration at being assigned responsibility for some cases that they felt should have been assigned to other departments or bureaus. Department staff also identified instances where City Attorney staff selected causes for cases that they felt were incorrect.

Knowing this, we examined liability payout data and identified over two dozen cases with questionable cause categories when compared with case summaries. The table below provides a few examples of cases where the case summary and the selected cause category do not appear to align, and what we believe could be a more accurate cause based on other existing cause categories used by the City Attorney's Office.

Table 6. The Designated Causes in Claim Data May Not Be Accurate

Case Summary	City Attorney's Cause Category	Potentially More Accurate Category
Claimant was riding her bicycle and was struck by a City vehicle that was making a right turn.	**Traffic Accident - Pedestrian**	**Traffic Accident – Failed to Stop/Yield**
Claimant was injured when she stepped into an open pull box/uncovered hole in a parkway.	**Dangerous Condition – Roadway Maintenance**	**Trip and Fall – Utility Access**
Claimant tripped and fell on uneven and broken concrete in the sidewalk.	**Dangerous Condition – Roadway Design**	**Trip and Fall – Cracked Sidewalk**
Claimant was at a complete stop behind a City vehicle. The driver went into reverse and struck the front of the claimant's vehicle.	**Traffic Accident – Equipment Related**	**Traffic Accident - Backing**
Claimant tripped and fell on a stub from a street sign in the sidewalk.	**Trip and Fall – Uplifted Sidewalk**	**Dangerous Condition - Signage**

Source: Analysis of case summaries and liability claim data

[17] ISO 31000: 2018, Risk Management—Guidelines, clauses 4d, 5.4.5 and 6.2

Without access to meaningful, high-quality data, City staff with risk management responsibilities lack essential information to help identify risks and mitigate their impact to the fullest extent possible. Moving forward, better communication and regular consultations between City Attorney and department staff can improve the reliability of the City's claims and litigation data and ensure that managers fully understand and agree with the information provided to them.

Reliability Issues With the City's Claim Data Also Impact Its Actuarial Studies

The City's biennial tort liability studies consistently highlight data reliability issues with liability claim data in CityLaw. Actuaries rely on case reserve and other information from CityLaw to estimate the City's outstanding claim liabilities and project liability payouts, which can be used for financial planning and reporting purposes. However, data reliability problems have been noted in each of the City's tort liability studies we reviewed for the fiscal years ending in 2019, 2021, 2023, and 2025.

For example, in several of the studies, the actuaries needed to work with the City to receive updated case reserve information. In the 2023 study, actuaries also had to manually zero out $5.9 million in case reserves on 52 claims that were already closed according to payout data in the City's Financial Management System (FMS). In the 2025 study, actuaries had to zero out $14 million in case reserve data, even though the City initially advised them "that the case reserves provided in the data were accurate and no manual adjustments were required." Regularly updating case reserves, which should occur as the claim and legal process evolves, is critical to ensuring that the actuarial estimates are as accurate as possible.

Data quality also impacts the length of time required to produce these reports. Each of the tort liability studies we reviewed noted the inconsistent use of case numbers across systems, which makes it difficult to match cases between CityLaw and FMS. The City's tort liability actuarial consultants explained that studies could be completed in as little as four weeks if they were provided high quality data. Instead, the City's tort liability studies often take several months to produce because of the additional time required to clean and verify CityLaw data with City staff.

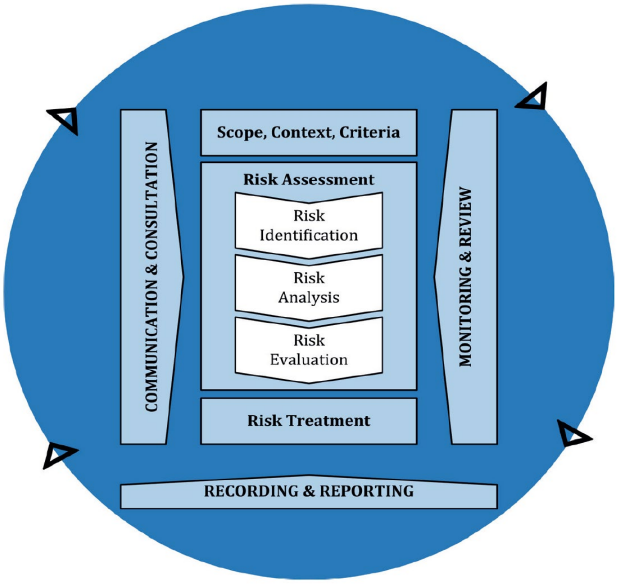
By taking steps to improve the quality of its liability claim data, the City can increase the accuracy of actuarial estimates and help produce studies in a more timely manner.

The City Should Establish a Better Process to Address Claim Risks

Claims and litigation filed against the City provide an opportunity to identify risks that may generate future liability costs. For example, when a member of the public is injured from a trip-and-fall on a broken City sidewalk and files a claim for damages, City staff can identify a risk (a sidewalk in dangerous condition) and develop and implement a risk treatment plan to address the risk (repair the broken sidewalk).

But, as shown in **Figure 8**, the effective management of risk also requires monitoring, reporting, and communication throughout the process.

Figure 8. Risk Management Process Elements



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The City Attorney's Office manages a Corrective Action Report (CAR) process for claims and litigation involving settlements or judgments in excess of $50,000. CARs are two-page documents that include a summary of the facts and the cause of a case, the department's proposed corrective actions, scheduled implementation dates for corrective actions, and the parties tasked with implementation. While the City Attorney's CARs include both risk assessment and risk treatment elements, the overall effectiveness of CARs as a risk management tool is limited by a number of issues.

According to departmental risk managers we spoke with or surveyed, CARs are sometimes incomplete or are not filled out altogether because of:

- **a lack of resource allocation**, since completing CARs did not result in additional resources to address identified hazards;
- **legal and privacy concerns**, especially for cases involving ongoing employee disciplinary proceedings; and
- **severe time constraints**, where departments are often given very little time, sometimes only one to two days, to complete CARs before the case is reviewed by the Claims Board for settlement approval.

As described in the textbox below, these issues caused a breakdown in the CAR process for sidewalk trip-and-fall injury cases, one of the most frequent and costly types of claims filed against the City, highlighting the City's need to redesign corrective action reporting to improve risk management.

Case Study: Corrective Action Reports Not Tied to City Response for Sidewalk Repairs

While local governments can be held liable for injuries caused by defective sidewalks, they can also defend against these claims by operating a reasonable inspection and maintenance program. However, StreetsLA's staff noted that the Bureau had not had a funded sidewalk maintenance program since FY 2009.

StreetsLA staff stated that they paused completing corrective action reports for sidewalk injury cases because of the limited time given to complete these reports, and the lack of discussion during the settlement process about resources needed to complete sidewalk repairs. **In this case, establishing a stronger connection between corrective action reporting and resource allocation could have led to better risk management and potentially fewer injuries to members of the public**.

While StreetsLA has a Risk and Liability Mitigation program, Bureau staff stated that funding ($1.2M annually) is only sufficient to complete about 40 to 50 projects a year to address known dangerous conditions on streets, bicycle lanes, and sidewalks. In addition, the City recently budgeted $6M in FY 2027 for a sidewalk maintenance program. By comparison, the City made an average of 197 liability payouts for sidewalk injury cases each year during our six-year audit scope period, and paid an annual average of $16M.

The CAR process also lacks monitoring, reviewing, and reporting at the Citywide level. **Our survey of departmental risk managers found that City staff from the CAO, City Attorney's Office, or City Council Offices rarely follow up to confirm that proposed corrective actions were actually implemented**. While some departments track implementation internally, their methods were generally informal or ad hoc. Without proper oversight in place for the CAR process, the City has less assurance that proposed corrective actions were implemented and identified risks were addressed.[18]

[18] The City Attorney's Office did not respond to our request for corrective action reports. This limited our ability to evaluate the extent to which corrective action reports were missing or incomplete, whether proposed corrective action steps would address root causes, and whether those actions were actually implemented.

The placement of the CAR process under the management of the City Attorney's Office also creates challenges for implementation. As the City's legal advisor, the City Attorney can only advise, rather than instruct, departments on how they can best reduce risks. City Attorney staff stated that they did not have the authority to instruct their clients, department staff, on which corrective actions should be included in CARs or conduct oversight of departments to confirm that corrective actions were completed.

Further, the City Attorney's Office restricts anyone (outside the department responsible for the claim, the Claims Board, and the City Council) from accessing CARs by claiming attorney-client privilege. This interpretation of attorney-client privilege prevents the CAO's Risk Management Division from reviewing this vital information, even though they are responsible for managing the City's central risk management function.

Since the City Attorney's Office manages the CAR process, the completion of CARs is driven by the legal closeout process as opposed to being part of the risk management function. CARs are often completed towards the end of a lengthy legal process, in which a resolution may take years. **This potentially leaves known risks unaddressed and without formal consideration for extended periods, increasing the City's liability exposure**.

In comparison, the processes implemented by Los Angeles County and Santa Monica to respond to risks identified in claims and litigation are driven by their risk management unit rather than their legal function. **Table 7** below provides overviews of the risk management processes each entity currently has in place.

Table 7. Risk Managers Mitigate Future Liability in LA County and Santa Monica

Jurisdiction/Program	Description
Los Angeles County - Corrective Action Plans (CAPs)	The Risk Management Inspector General Unit in the County's CEO works with County Departments to develop their Corrective Action Plans (CAPs), which include corrective actions to address the causes of an incident and prevent or mitigate similar incidents in the future. County Counsel assists the Risk Management Inspector General and departmental staff to ensure that communications are protected under attorney-client privilege. Once CAPs are finalized, the Audit and Compliance Unit in the CEO's Risk Management Branch monitors progress and reports on implementation statuses each quarter.

City of Santa Monica – Liability Mitigation Program	The Risk Management Division in Santa Monica's Finance Department is responsible for implementing the City's Liability Mitigation Program. The program requires departmental staff to notify the City's Risk Manager within three business days of an incident to expedite cause analysis. The program also requires departments to develop Mitigation Action Plans that identify root causes and include clear action items to reduce risks. The City's Risk Manager oversees the program and tracks implementation of plans.

LA County and Santa Monica's risk management processes highlight some of the gaps in the City's current CAR process. While the City's claim mitigation process is managed by City Attorney staff, risk managers in Santa Monica and the County oversee their jurisdiction's claim mitigation process. Both Santa Monica and LA County have centralized entities that conduct oversight and verify that implementation was completed, whereas the City does not. Lastly, the County regularly records and reports on the implementation statuses of corrective actions, but the City lacks a similar recording and reporting element in its process.

The City should develop a new claim mitigation process, managed by City staff with the authority to collaborate with and instruct departmental personnel on addressing risks. The process should also include adequate oversight and periodic reporting to stakeholders so that the program's effectiveness can be regularly evaluated and improved.

Recommendations

To ensure that the City's claims handling practices align with industry best practices:

3. The City Council, as the governing body with the highest settlement authority, should request or require the City Attorney's Office to allow an independent and qualified claims auditor to conduct periodic audits of the City's claims administration practices.

To improve the quality of the City's liability data used for risk management analysis:

4. The CAO, or other entity designated with Citywide risk management authority, should work with the City Attorney's Office and departmental personnel to resolve reliability issues with the City's liability claims data. The CAO should address the follow items:

a. Develop and define cause categories and other data fields in close consultation with departmental risk managers;
b. Develop a process for departmental risk managers to participate in the process to determine the causes of cases and assignment of responsibility;
c. Develop and implement a process to improve and monitor the quality of the City's risk management data;
d. Work with the City's actuary to identify gaps in liability payout data and address issues to increase the accuracy and timeliness of actuarial estimates.

To improve upon the City's risk management process and effectively manage risks identified through claims and litigation in a timely manner:

5. The CAO, or other entity designated with Citywide risk management authority, with the assistance of the City Attorney's Office, should develop and implement a new claim mitigation program that operates as a line business function, rather than as part of the litigation process. The claim mitigation program should begin to address risks shortly after incidents are known, and should include the following elements:
    a. Guidance to departments on how to participate in this process;
    b. Clear timelines for the completion of claim mitigation reporting;
    c. Data management and oversight requirements for tracking, monitoring, and reporting on the implementation of corrective actions.

III. Risk Financing Should Be Revisited

The CAO generally purchases insurance policies for the City when required by contract or law.[19] Otherwise, the City is primarily self-insured for third-party liabilities arising from its various responsibilities and operations. **This reliance on self-insurance requires the City to pay for third-party liabilities directly from its own funds, making accurate payout projections critical for effective budgeting**. Despite this, we found that the City lacked a transparent process for estimating accurate annual liability payouts during our audit period.

Historically, the City's financial position may have allowed it to absorb occasional large payouts. However, the rising frequency of million-dollar payouts, including "Nuclear" verdicts and settlements over $10 million requires a reevaluation of the City's self-insurance posture.

[19] The CAO's Risk Management Division administers a budget of $7.4M for FY 2027 to purchase insurance for the City. While the City's current insurance policies provide some coverage for the Los Angeles Convention Center and other City facilities and assets, they generally do not cover the third-party liabilities discussed in this report.

Without a better plan to fund catastrophic liabilities, the City's budget (and the essential services it supports) will remain vulnerable to fluctuations in liability payouts that are more difficult to predict.

The City Should Improve Its Budgeting Process for Liability Payouts

Developing reliable cost estimates is a difficult but necessary exercise to support the City's spending plan. As part of the City's budget development process, departments are typically required to submit a baseline budget for existing programs under their management. Departments can also submit budget requests for new or expanded services, along with a written narrative to justify funding increased expenditures. Department budget submissions are due by the November before the next fiscal year.

Budgeting for Liability Costs Is Not Transparent or Accurate

Until recently, however, the City Attorney's management of the City's liability payouts was a critical exception to this standardized budget submission practice. **As shown in Table 8, the City Attorney's departmental budget submission did not include a full budget request amount for liability payouts until FY 2025**.[20]

Table 8. The City Attorney's Office Did Not Propose a Liability Payout Budget until FY 2025

City Attorney Budget Request	Fiscal Year ending in:						
	2020	2021	2022	2023	2024	2025	2026
Liability Claims Account	-	-	-	-	-	$107.4M	$207.4M
Extraordinary Liability Line Item	-	-	-	-	$20M	$25M	$100M
Total	-	-	-	-	**$20M**	**$132.4M**	**$307.4M**

Source: Analysis of the City Attorney's annual department budget requests.

Further, when the City Attorney did submit a proposal for liability payouts, they provided little to no information to substantiate the requested amounts. The City Attorney's FY 2025 budget submission for $132.4M in liability payouts lacked a written justification narrative. The primary

[20] The City allocates annual funding for liability payouts in two locations (1) the Liability Claims Account, and (2) the Extraordinary Liability line item in the Unappropriated Balance of the adopted budget.

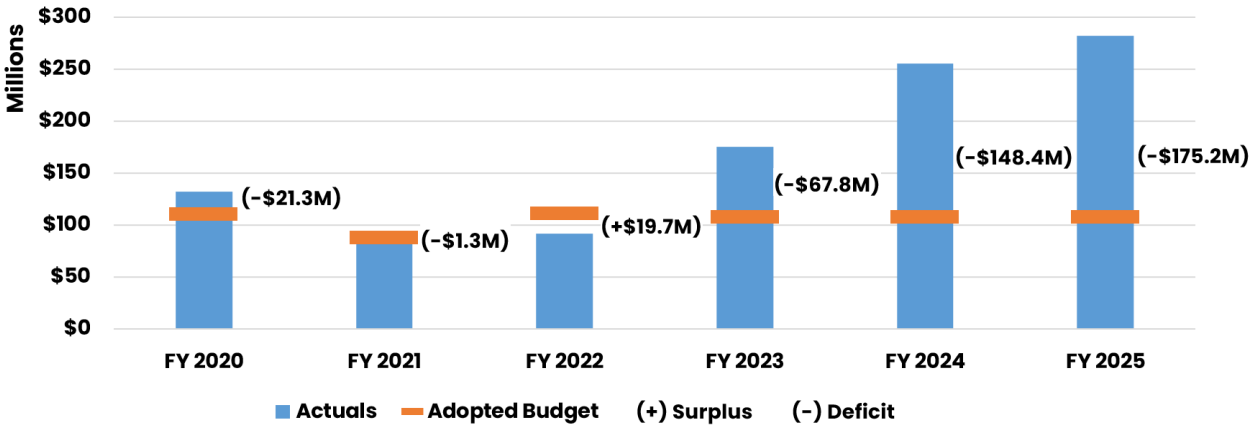
justification for its $300M request for FY 2026's liability payout budget was simply the large deficit the City Attorney reported several months earlier in the FY 2025 Liability Claims Account.

According to CAO budget staff, the City Attorney's Office provides additional liability cost information during the budget development process. However, CAO staff declined to share this information, or explain how it is evaluated, citing confidentiality. **While the budget development process involves confidential deliberations, we believe the departmental budget proposal and its underlying cost-estimation methodology should still be well-documented and supported in order to ensure its transparency, accuracy, and credibility**.

This shortfall is compounded by the absence of formal City policies regarding liability estimation and budgeting. When asked how the liability claims budget is usually determined, CAO budget staff explained that, for many years, the City allocated $100M from the General Fund, which was often sufficient to cover these costs.

But despite a surge in liability payouts to $175M in FY 2023 as shown in **Figure 9**, the City maintained this $100M budget for FY 2025. CAO budget staff attributed this decision to uncertainty at the time over whether the spike was a one-time outlier or a trend. CAO budget staff also noted that predicting these costs is difficult, in part due to the significant volatility of large verdicts and settlements.

Figure 9. The Total Budget Deficit for Liability Payouts Exceeded $394M Over Six Years



Source: Analysis of the City's Adopted Budget and Liability Payouts from the City's Financial Management System.

Indeed, projecting liability payouts for budgeting purposes is inherently complex due to a number of factors, including:

- **Loss development lag**: an individual claim's ultimate cost is rarely known at the outset; while estimates change over time as more information becomes known, claims exceeding $1M take an average of six years to resolve.
- **Litigation uncertainty**: unlike settlements agreed upon by both parties, litigation outcomes for individual cases can be decided by jurors at trial, creating an environment that can result in unpredictable, adverse verdicts against the City.
- **Projection error**: liability cost estimates must account for the uncertainty inherent in both loss development and trial outcomes, and their timing. However, the City's 19-month gap between departmental budget proposals (e.g., November 2023) and the end of the targeted budget fiscal year (June 2025) compounds the forecast's error.

Despite these challenges, the lack of a reliable cost estimation process leaves the City vulnerable to recurring deficits in liability payouts. **These deficits, which have totaled more than $394 million between FY 2020 and FY 2025, undermine the City's ability to plan and fund public services through the annual budget**. To address this problem, the City should adopt best practices from the insurance industry to manage these financial uncertainties.

Well-Structured Actuarial Studies Can Provide More Reliable Cost Estimates

Actuaries play a vital role in maintaining the financial solvency of insurance companies by analyzing and advising on the likelihood and cost of uncertain future events. Following these same principles, the Association of Governmental Risk Pools recommends liability claim funding be based on actuarial estimates, supplemented with a reasonable margin for contingencies.[21] As a primarily self-insured entity, the City should adopt this industry standard to ensure its liability budget is both realistic and more resilient.

While the CAO contracts for and facilitates actuarial studies of the City's tort liabilities, these reports are primarily used to comply with financial reporting standards. Although the current actuarial reports offer some value, their usefulness for decision making during the City's budgeting process is limited. To improve how the City obtains and uses actuarial estimates, the CAO should address the following structural issues:

- **Biennial frequency**: the CAO only contracts for a liability cost study once every two years, which does not align with the City's annual budget cycle.

[21] The Association of Governmental Risk Pools represents public entities who provide insurance-like coverage to cities, counties, and other governmental jurisdictions through cooperative agreements.

- **Flawed data**: as discussed earlier in this audit report, reliability issues with the City's liability claim data impact the accuracy of actuarial estimates.
- **Delayed results**: for example, the most recent report was published in March 2026, four months after the November deadline for departmental budget proposals. The City's tort liability actuary attributed the delay to data inaccuracies and coordination hurdles with City staff.
- **Insufficient budget margin**: the current study only provides an "expected" loss estimate, which the tort liability actuary explained would only be sufficient for budgeting purposes about 55% of the time.

To address these deficiencies, the CAO should propose formal updates to the City's financial policies for Council adoption. Existing policies lack specific guidance on how to accurately estimate or budget for liability claims. Instead, the current financial policy is limited to a high-level requirement that the annual budget set aside funding to pay for liability claims and that the CAO periodically report on payouts.

The City of Sacramento provides an example of an actuarial approach to estimating liability payouts. To "methodically and consistently measure the City's projected claims," Sacramento's Risk Management Funding and Reserve Policy mandates a professional actuarial report every year. In addition, Sacramento's policy requires it to annually budget for liability claims at the actuarial estimate's 80% confidence level, which is intended to be "adequate eight out of 10 years."

An in-house example of this actuarial approach is the City Personnel Department's management of the workers' compensation program. Personnel staff explained that their departmental budget proposal submitted in November includes a request to fund the workers compensation program at the "high" level cost estimate from their annual actuarial report, which is completed in August.

The typical result, according to Personnel staff, is that the City allocates funding at the "expected" (middle) range of the actuary's estimates. Still, by basing its funding on an actuarially-determined estimate, Personnel noted that the budget deficit for the City's workers compensation program was limited to a total of $33M across FY 2022 and FY 2025, out of a total of $948.4M that was budgeted over those four years.

Although Los Angeles is much larger than Sacramento, and third-party liabilities costs are generally more volatile than workers' compensation claims, the same actuarial principles for estimating uncertain events can be applied. By adopting a similar framework—and addressing claim data reliability and coordination with its actuary—the City can improve its

budget estimates for liability claims, allowing it to more reliably plan and allocate funding to maintain or expand essential public services.

The City Lacks a Resilient Plan to Pay for Large Liability Claims

If the City adopts a policy, for example, to fund the Liability Claims Account at the actuarial estimate's 80% confidence level, it should still expect the budget allocation to fall short in two out of 10 years. This is because losses may develop more adversely than expected, due to new claim information and forecasting errors, among other reasons. To guard against this risk, and prevent financial impairment, the Association of Governmental Risk Pools recommends having a strategy to deal with large liability claim losses.

The City's Current Model for Self-Insuring Liability Claims Lacks Depth

To fund third-party liabilities, the City generally follows a two-pronged approach: a "pay-as-you-go" cash flow model, and judgment obligation bonds. While both are valid methods to finance liability risks, each has significant limitations that should be recognized.

The City primarily relies on annual budget allocations to the Liability Claims Account and the Extraordinary Liability line item in the Unappropriated Balance. While the City can enter into settlement agreements to structure payouts and mitigate the near-term impact of a large case, these merely defer the burden while adding to the demand on the City's future cash flow that must also cover other ongoing and new claims. In addition, the City can also tap into its annual reserve for mid-year adjustments, but this Unappropriated Balance line item is also used to address other areas of overspending throughout the fiscal year.

When cash flow and cost-cutting appear insufficient, the City has also turned to judgment obligation bonds. Although the City can issue judgment bonds to borrow funds without voter approval, the CAO has noted that they are an extraordinary financing tool that should only be used sparingly in exceptional and unusual circumstances. The process is also time-consuming and costly, requiring judicial validation, the involvement of outside bond counsel and other professional services that the City has to pay for, and the ongoing cost of interest on the issued bonds.

The City's recent history illustrates these hurdles. In both FY 2017 and FY 2025, the City considered issuing judgment bonds to borrow the equivalent of 1% of anticipated General Fund receipts for their respective adopted budgets. CAO staff explained that, in both instances, the City began this process in order to preserve its option to issue judgment bonds later. The City eventually stopped its efforts to issue judgment bonds on both occasions due to the costs, lengthy timelines, and limited benefits.

As shown in **Table 9**, the scale of the proposed refinancing in FY 2025 was modest, especially when compared to other Los Angeles area jurisdictions that issued judgment bonds representing a much higher percentage of their General Fund budget.

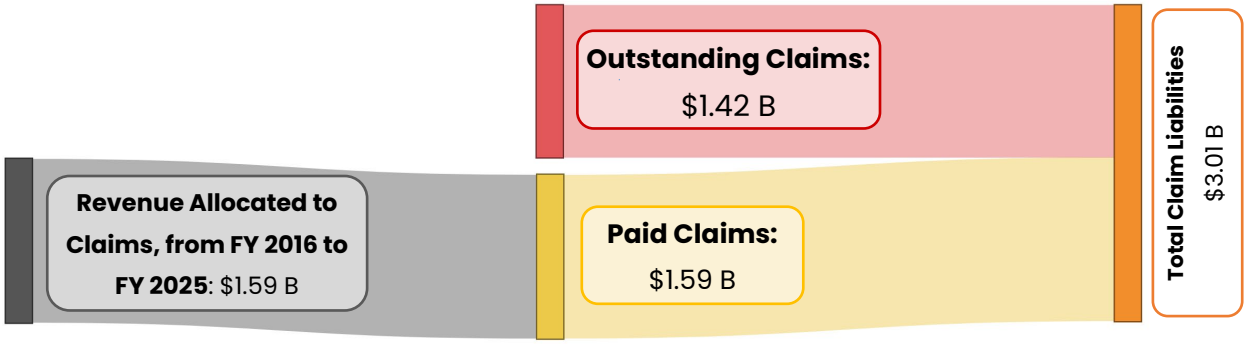
Table 9. The City Considered Judgment Bonds for Only 1% of the General Fund Budget

Local Government Entity	Judgment Bond Amount Considered	General Fund Budget	Bond % of Budget
City of Los Angeles	$80 million	$8.0 billion	1.0%
Los Angeles Unified School District	$500 million	$7.2 billion	7.0%
County of Los Angeles	$4 billion	$35.0 billion	11.0%

Sources: Analysis of FY 2025 budget and governing board reports for LAUSD, LA County, and the City of LA.
Note: LAUSD approved an additional $250M in judgment bonds in FY 2026.

While the City also has a General Fund Reserve, it has been used as a temporary bridge to fund outsized liability claims rather than a funding source to be relied upon. On both occasions when the City recently considered issuing judgment bonds, one of the primary reasons for doing so was to replenish or maintain the City's General Fund Reserve at the 5% policy goal. This highlights the need for additional financial tools to help plan and pay for extraordinary liability costs.

Figure 10. The City Has Not Set Aside Reserves for $1.4 Billion in Outstanding Claims



Source: Analysis of liability payouts in FMS, and the City's Tort Liability Actuarial Study completed in 2026.

The City's reliance on annual cash flow, coupled with the rare consideration of 'extraordinary' judgment bonds leaves a strategic gap in its financial toolkit. This is especially concerning given that, while the City has paid more than $1.5 billion for liability claims from FY 2016 to FY 2025, the City's outstanding claim liabilities have grown to $1.4 billion as of FY 2025 (**Figure 10**).

To enhance fiscal stability, the CAO should re-evaluate the City's self-insurance posture and develop intermediate financing mechanisms to provide the City with more funding options.

The CAO Has Not Formally Re-Evaluated the City's Self-Insured Approach for Some Time

In an undated publication on its website, the CAO's Risk Management Division states that it "continually conducts risk assessments of the City's exposures to loss and has determined that, in general, retention of risks as opposed to insurance is the most prudent method of risk financing for the City." **While the decision to self-insure liability claims may have been valid at some point, it is not clear when or how this determination was made, or what the results of the CAO's continual risk assessments are.**

During the initial stages of this audit in September 2025, the CAO's risk management staff could not identify any recent re-evaluations of the City's self-insurance model. While staff noted past informal discussions with the City's insurance broker, these conversations had yet to evolve into a formal evaluation of the City's broader risk-financing options.

Industry best practices suggest that risk management is an iterative process. The effectiveness of the City's self-insured posture depends on regular, data-driven reviews of its long-term sustainability compared to other available alternatives. Consistent with this principle, the CAO and City Attorney recently issued a joint report in March 2026 recommending the Council to instruct them to report back with an analysis and recommendations on the potential use of insurance to pay for liability claims.

While this is a step forward, the City's strategy should not be limited to commercial insurance. To better address recurring budget deficits in the City's Liability Claim Account, the CAO should consider a multi-faceted funding strategy that looks beyond the binary choice of self-insurance versus traditional coverage.

Other Jurisdictions Have Adopted a Number of Ways to Finance Third-Party Liability Risks

Following the legal reforms and shifting insurance market of the 1960s and 1970s, which reduced immunities and left the City and other public entities with less cost-effective insurance options, a number of alternative financing methods have emerged. As detailed in **Table 10**, these include maintaining dedicated liability reserves, participating in a risk-sharing pool, or forming a captive insurance company.

In our review, we found that other jurisdictions often used a layered approach that combines several risk financing options. For example, the City of Sacramento retains the first $2M of each claim, which they estimate and pay for as part of their annual budget. Sacramento also

maintains a separate reserve equal to two self-insured retention allotments, or $4M. Beyond that, Sacramento's participation in the Public Risk Innovation, Solutions, and Management (PRISM) risk-sharing pool provides $40M of coverage per incident in excess of $2M.

Table 10. The City Has Many Alternatives to Consider for Its Liability Payout Strategy

Categories of Risk Financing	Some Considerations	Examples
Liability Claim Reserves: a dedicated reserve for funding liability payouts	• Funds are generally restricted to covering liability payouts • A formal reserve policy should specify funding targets and governing criteria	San Diego's policy requires a 50% reserve of outstanding claims, based on its three latest annual actuarial valuations.
Excess Liability Insurance: structured to cover losses after the policyholder has exhausted their (primary) self-insured retention for a claim	• Coverage options for certain types of claims may be limited, more expensive, or unavailable • Aggregate limits and other terms may further reduce coverage • Subject to renewal, where coverage and terms could change or be cancelled	Long Beach's FY 2027 policy costs nearly $14M in premiums, providing $40M in coverage above a $10M self-insured retention, while excluding eminent domain and pollution claims.
Risk-Sharing Pool: a cooperative group of governmental entities joining together to finance a liability or risk	• Potentially more cost-effective than individual liability coverage • Members must adhere to the pool's terms, including reporting, data sharing, settlement approval, claim handing and audit protocols	The vast majority of cities and counties in California, as well as many special districts and other public entities, participate in a risk-sharing pool.
Captive Insurance Company: a form of self-insurance established to serve the insurance needs of the parent organization	• Provides more flexibility/control, and access to reinsurance • Invested reserves can generate returns, as well as losses • Regulatory compliance adds complexity, upfront/ongoing costs	The University of California established its captive insurance company, Fiat Lux, in 2012, to finance the University's risks and purchase reinsurance.

Sources: Analysis of risk financing documentation from various jurisdictions

Note: See our supplemental report, "Risk Financing Options for the City of Los Angeles," for further details.

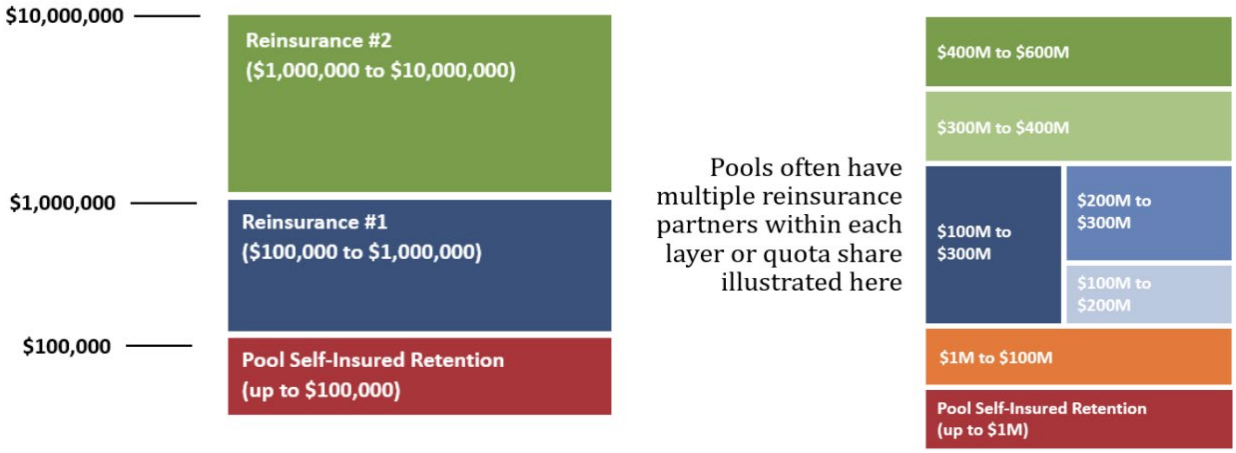
As demonstrated in **Figure 11**, risk-sharing pools also take a layered approach to provide coverage to their members. For example, PRISM established its own captive insurer in 2016 to transfer risk and to generate additional investment income. PRISM also reinsures its risk by

buying a number of re-insurance policies that, in combination, provide the financial stability and liability coverage that PRISM's members seek.

As the City reassesses its liability payment model, the evaluation should also consider broader risk management goals. Examples of these strategic goals may include:

- **Increasing accountability** by holding individual departments responsible for their share of liability costs.
- **Incentivizing risk mitigation** by using financial structures to encourage departments to reduce their own risk exposures.
- **Protecting against volatility** by providing coverage for high-cost, catastrophic liabilities that could otherwise destabilize City or department budgets.
- **Reducing the overall cost of risk** by investing in risk mitigation strategies and increasing revenue.

Figure 11. Public Entities Often Layer Risk Financing to Reach Total Required Coverage



Source: Adopted from *Pooling Basics*, published by the Association of Governmental Risk Pools.

If it finds that commercial insurance or risk-sharing pools are too costly, restrictive, or do not align with its strategic goals for risk management, the City could also consider establishing its own captive insurance company. This entity would allow the City to:

- **Target specific risks** by writing internal insurance policies for specific exposures, such as vehicle or law enforcement liability, to better manage the City's most volatile risks.
- **Internalize costs** by charging departments actuarially-determined premiums that accurately reflect their specific risk profile and claims history.
- **Build equity** by establishing a dedicated reserve and earning investment income on held funds to offset future costs.

This degree of control appears to be part of the reason why the Los Angeles Unified School District (LAUSD) established its own captive insurance company. After completing a feasibility study, LAUSD established its captive in 2024, funded the captive's financial reserves, and had the captive write policies for the district to insure general liability and workers compensation.

According to an article that features LAUSD's Deputy Chief Risk Officer, the district is also exploring expanding its captive insurance company to include other types of insurance coverage, including cyber liability and employee benefits. If the City were to establish its own captive insurance company, it could adopt LAUSD's strategy and choose to target specific types of liability exposures to start with, and expand to other lines of coverage over time as the captive grows.

The City could also use the captive insurance company to begin creating a reserve for its outstanding claim liabilities. If the City were to eventually grow a liability claim reserve to $700 million, half of the $1.4 billion in outstanding claim liability, it could invest the reserves to earn additional revenue. With a modest investment return of 4% per year, the $700 million reserve could earn $28 million annually, enough to cover a significant portion of the City's liability payouts.

The City could also leverage the flexibility of captive insurance to re-introduce a "charge back" system that increases departmental accountability and incentivizes better risk mitigation. For example, the City could work with a professional actuary to issue individual insurance policies from its captive insurance company to each department. These individual insurance policies could be structured to:

- **Provide liability coverage** while requiring each department to retain the cost for each of their claims up to a limit that is proportional to their size and claim history;
- **Require liability budgeting** at the department level, partially shifting the City's centralized Liability Claims Account to each department for their retained costs; and
- **Improve accountability** by motivating better loss control, while limiting departmental exposure so that their ability to operate is not undermined by catastrophic claims.

Because risk management is an iterative process, the City could implement its captive insurance company program in phases. For example, the City could start by launching a pilot program that targets a specific type of liability, such as vehicle accidents, and using its experience to refine the program's concept before a broader rollout.

Although captive insurance companies are not without their own unique risks and administrative requirements, the City should carefully examine the flexibility, control, and opportunities they offer. As the City re-evaluates its approach, it should engage with its

insurance broker and actuary to obtain their professional advice, and consider captive insurance companies alongside other alternatives for financing third-party liabilities.

Recommendations

To optimize the City's funding of liability claims, the CAO should:

6. Establish standardized procedures to estimate and budget for liability claim payouts. These procedures should include a requirement to obtain an actuarial study that is timely for the City's budgeting process, and provides loss projections at the "expected" and higher confidence levels.
7. Develop and propose an update to the City's financial policies, for the Mayor and Council's review and adoption, to budget for liability payouts based on an actuarial estimate at higher confidence levels.
8. Engage with the City's insurance broker and actuary, reassess the City's current self-insurance model, and evaluate alternative funding strategies, such as reserves dedicated to liability payouts, commercial insurance, risk-sharing pools, and captive insurance companies.
9. Based on its reassessment, propose a formal risk financing strategy for funding liability payouts for the Mayor and Council's review and adoption.
10. Establish a recurring, documented review that incorporates information from the City's insurance broker and actuary to ensure that the City's risk financing strategy is cost-effective and remains aligned with its strategic risk management goals.

CONCLUSION

While effective risk management practices are essential to safeguarding the City's financial health, its fundamental duty to protect the well-being of its residents and visitors is even more important. Many claims filed against the City stem from incidents where Angelenos sustained life-altering injuries. Although the massive scale of the City's operations means that some accidents are inevitable, implementing the recommendations in this report will allow the City to better protect its people.

RECOMMENDATION TABLE

Number	Recommendation
Responsible Entity: City Administrative Officer (CAO)	
1	The CAO should develop and propose an updated Citywide risk management policy and framework for the Mayor and City Council's consideration and adoption. This proposed risk management policy and framework should: a. Formally incorporate the City's organizational structure, explicitly acknowledging the CAO's reporting relationship to both the Mayor and City Council, while accounting for the independently elected status of the City Attorney and its role to provide legal advice and representation; b. Resolve existing uncertainties regarding the CAO's role, authority, responsibility, and access to information for overseeing and managing third-party liability risks for the City; c. Designate Citywide risk management responsibilities, including the requirement to (1) design and implement accountability mechanisms, such as chargebacks to departments and/or other financial incentives and performance measures, to improve risk management at the Citywide and departmental level, (2) monitor and review department risk management programs, (3) establish centralized loss control programs, risk management standards and best practices, and training for departments, and (4) report on risk management activities at the Citywide and departmental levels; d. Identify the funding and reorganization of risk management staff needed to appropriately reflect the newly clarified responsibilities.
2	The CAO, or other entity designated with Citywide risk management authority, should work with the City Attorney's Office to gain access to the claim and litigation data it needs for risk assessment and reporting purposes.
4	The CAO, or other entity designated with Citywide risk management authority, should work with the City Attorney's Office and departmental

Number	Recommendation
	personnel to resolve reliability issues with the City's liability claims data. The CAO should address the follow items: a. Develop and define cause categories and other data fields in close consultation with departmental risk managers; b. Develop a process for departmental risk managers to participate in the process to determine the causes of cases and assignment of responsibility; c. Develop and implement a process to improve and monitor the quality of the City's risk management data; d. Work with the City's actuary to identify gaps in liability payout data and address issues to increase the accuracy and timeliness of actuarial estimates.
5	The CAO, or other entity designated with Citywide risk management authority, with the assistance of the City Attorney's Office, should develop and implement a new claim mitigation program that operates as a line business function, rather than as part of the litigation process. The claim mitigation program should begin to address risks shortly after incidents are known, and should include the following elements: a. Guidance to departments on how to participate in this process; b. Clear timelines for the completion of claim mitigation reporting; c. Data management and oversight requirements for tracking, monitoring, and reporting on the implementation of corrective actions.
6	Establish standardized procedures to estimate and budget for liability claim payouts. These procedures should include a requirement to obtain an actuarial study that is timely for the City's budgeting process, and provides loss projections at the "expected" and higher confidence levels.
7	Develop and propose an update to the City's financial policies, for the Mayor and Council's review and adoption, to budget for liability payouts based on an actuarial estimate at higher confidence levels.
8	Engage with the City's insurance broker and actuary, reassess the City's current self-insurance model, and evaluate alternative funding strategies, such as reserves dedicated to liability payouts, commercial insurance, risk-sharing pools, and captive insurance companies.

Number	Recommendation
9	Based on its reassessment, propose a formal risk financing strategy for funding liability payouts for the Mayor and Council's review and adoption.
10	Establish a recurring, documented review that incorporates information from the City's insurance broker and actuary to ensure that the City's risk financing strategy is cost-effective and remains aligned with its strategic risk management goals.
Responsible Entity: City Council	
3	The City Council, as the governing body with the highest settlement authority, should request or require the City Attorney's Office to allow an independent and qualified claims auditor to conduct periodic audits of the City's claims administration practices.

CAO's Response to the Audit

CITY OF LOS ANGELES
CALIFORNIA

MATTHEW W. SZABO
CITY ADMINISTRATIVE OFFICER

KAREN BASS
MAYOR

ASSISTANT
CITY ADMINISTRATIVE OFFICERS

BEN CEJA
MEG BARCLAY
EDWIN GIPSON II
MELISSA A. VELASCO
JACOB W. WEXLER

October 28, 2026 0220-06441-0000

Controller Kenneth Mejia
City of Los Angeles

RE: OFFICIAL RESPONSE LETTER TO THE CITYWIDE RISK MANAGEMENT AUDIT

Dear Controller Mejia,

We have reviewed you Office's Citywide Risk Management audit. We are grateful for this opportunity to provide an Official Response Letter, as we were for the opportunities that the audit team provided for us to meet with them and to review drafts throughout the audit development process.

Areas of Agreement
While we identify a few areas of disagreement below, we strongly support that audit's findings that liability claims payouts are a significant challenge that the City must address more effectively, that the City's current structures have exacerbated this challenge, and that the audit's proposed solutions, once implemented, will improve the City's performance.

Liability Claims Payouts are a Significant Challenge for the City
As we stated in our March 27, 2026, joint report with the City Attorney's Office (C.F. 24-0600-S37), we share your Office's concern with the recent rapid growth in liability claims payouts. While the increased budget in 2025-26 met the need in that year, we are also concerned that if we don't improve our planning and management of liability claims, the City remains vulnerable to reacting slowly to future payout increases, which could have a negative impact on the City's finances, and to incurring preventable liabilities.

Causes of the City's Liability Claims Challenges
Our March report also drew many of the same conclusions as this audit about the causes for City's challenges in planning for and managing liability claims. We concur that the City's budgeting process failed to appropriate adequate funding for liability claims during the rapid increase following the pandemic, which caused financial pressures. We concur that the City lacks centralized liability claims mitigation oversight. This decentralization has

limited the City's ability to ensure that departments are applying best practices to mitigate risks, including necessary analytical reporting on the causes for major liability payouts. We also concur that the City's current practices take limited advantage of opportunities to stabilize payouts through the use of insurance, risk pools, and mechanisms to hold departments accountable if their operations are causing significant liability payouts.

Proposed Solutions to Mitigation Liability Claims Payouts

Finally, our March report also made several recommendations, which the Council adopted, that are also consistent with the audit. We, therefore, generally agree with your Office's recommendations, many of which we are in the process of implementing as a result of Council's previous instruction. The 2026-27 Budget authorized positions beginning on January 1, 2027, that will work to centralize liability claims mitigation efforts Citywide. Once staffed, those teams will be able to conduct strategic analysis, develop Citywide policies, share best practices, and expand the City's current reporting. We are reviewing opportunities for the City to procure insurance to stabilize liability payouts. The 2026-27 Budget includes funding with the intent of shifting the City's liability payout actuarial reports from biennial to annual. The City Attorney is working to upgrade its claims management system, which we expect will improve the data available to the actuary and inform budgeting in future years.

Areas of Disagreement

Our areas of disagreement with this audit are minor compared to our areas of agreement. We are appreciative of the audit team's consideration of the concerns that we raised during this process, some of which the final audit reflects or acknowledges. We highlight a few of our differences below.

The CAO's Role in Liability Claims Mitigation

We agree that the City will benefit from increased centralization in liability claims mitigation efforts. We look forward to playing that role using the staff that the Council and Mayor included in the 2026-27 Budget. Contrary to the audit's suggestion, we believe that this is a newly expanded role for the CAO. While the 1981 Risk Management Policy that the audit discusses did authorize the CAO Risk Management Division to oversee some elements of the City's risk management program, it did not charge the Division with the responsibility to mitigate liability claims payouts.

The audit states that the 1981 Policy "requires the CAO to oversee departmental risk management programs, but the [Risk Management Division] provides very limited oversight in these efforts." We disagree that the CAO provides limited oversight over the City's risk management activities. In fact, the City implemented the 1981 Policy through adopting Administrative Code sections and budgets that authorized and staffed the CAO's Risk Management Division to, among other work:

- Review contract insurance, indemnification, and bonding requirements (the CAO reviewed 1,136 contracts for these risk management elements in 2024-25).
- Ensure contractor compliance with these requirements (the CAO processed 19,461 certificates of insurance in 2024-25).

- Perform risk control and loss prevention assessments of City insured assets and procure and manage insurance for the City (the CAO procured and managed coverage for these assets with cumulative limits of $600 million and recovered $49 million from these policies in 2024-25).
- Support small businesses to secure required bonds and insurance to participate in City contracting opportunities (the CAO helped 73 potential contractors to secure bonds and 40 contractors to secure insurance between 2021 and 2025).
- Manage claims against the City when the City Attorney cannot due to conflicts (the CAO managed 129 active cases in 2024-25).
- Commission liability claims actuarial studies (the CAO-commissioned studies have been biennial, but will increase to annual going forward).
- Conduct training for City staff on all these activities on an as needed basis.

The Division is tasked, staffed, trained, and highly effective at all of these tasks. The audit assessed none of them.

The Division is not tasked, staffed, or trained to develop and implement or recommend changes to departmental operations to mitigate liability claims. Further, contrary to the audit's statements that the CAO's role in mitigating liability claims has "diminished" or is "eroding" since the adoption of the 1981 Policy, the audit presents no evidence that the CAO ever filled this role.

In fact, the 1981 Policy and subsequent executive directives have established a decentralized approach to liability claims mitigation. The 1981 Policy requires departments, not the CAO, to "identify and evaluate all risk…" and "select the appropriate risk management techniques to reduce the chance of accidental loss." The 1981 Policy, therefore, authorizes the departments, not the CAO, to evaluate their own risks and take steps to mitigate them. Further, and as the audit states, subsequent executive directives have also tasked departments, not the CAO, with taking the lead on mitigating their own liability claims. As the audit states, however, "risk management at the department level was considered, but was not the primary focus" of the audit.

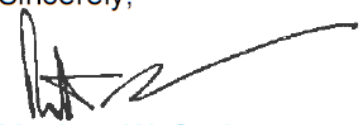
Riskonnect

The audit states that the City "wasted $1.3 million" through its procurement of the Riskonnect risk management information system that the CAO administers. The CAO concurs that Riskonnect did not deliver all the benefits that the City expected, largely due to the inadequate data from, and interface with, the City Attorney's claims management systems. For these reasons, the CAO discontinued the Riskonnect contract at the end of its most recent term in June 2026. That said, Riskonnect did enable the CAO to track its Attorney Conflict Panel caseload and manage the associated documents and to track and manage the City's statements of values for insured properties. The CAO has subsequently developed an internal process for this work.

Evaluation of Best Practices

We acknowledge and appreciate the significant work that the audit team did to evaluate liability mitigation practices in other jurisdictions. This peer review would have been more instructive to the City's practices had it been accompanied with those jurisdictions' liability payout outcomes over the same period.

Sincerely,



Matthew W. Szabo
City Administrative Officer

MWS:JWW:ZA:14270042

AUDITOR COMMENTS ON CAO'S RESPONSE

We are encouraged by the CAO's overall agreement with the audit report's findings and recommendations for improving liability management in the City. To provide clarity and perspective, we offer the following comments on the CAO's primary point of disagreement concerning its role in mitigating liability claims.

In its written response, the CAO's Office states that the City's 1981 Risk Management Policy "did not charge the Division with the responsibility to mitigate liability claims payouts." **We disagree with this interpretation. As described in the audit, mitigating liability costs was central to the City Council's intent when it designated the CAO as the City's Risk Manager**.

The CAO's Office was tasked with an important centralized role. Under the 1981 Policy, the CAO is responsible "for the overall coordination of the [City's] risk management program," which includes "reviewing the risk management program of each department, office and bureau and advising them in the area of risk management and insurance." However, our audit found that CAO staff have not conducted proactive and comprehensive oversight of department risk management programs, as required by the policy.

The CAO's Office also contends that the "Division is not tasked, staffed, or trained to develop and implement or recommend changes to departmental operations to mitigate liability claims." **However, a straightforward reading of Los Angeles Administrative Code Section 20.8(d) (reproduced below) shows that the CAO's Office is tasked with assessing and recommending changes to mitigate risks and potential liabilities in City departments**.

Figure 12. The CAO's Duties Include Addressing Departmental Liabilities

Sec. 20.8. Additional Powers and Duties of the Office of Administrative and Research Services.

In addition to the powers and duties granted to the Office of Administrative and Research Services by sections 290 through 293 and other provisions of the Charter, the Office of Administrative and Research Services shall have the power and duty to:

(d) **Risk Management Services.** Provide risk management services and assistance, including studies, reports, analyses, assessments and recommendations with respect to risks and potential liabilities presented by the operations, practices and conditions existing in the various City departments, including but not limited to administering funds to provide for losses, placement of insurance contracts, and assisting with the management of claims presented against the City. The City Administrative Officer shall report on a quarterly basis to the Mayor, City Council and the Chief Legislative Analyst regarding the duties relating to risk management.

Source: Los Angeles Administrative Code Section 20.8(d)

Further, the Risk Managers staffing the CAO's Risk Management Division should already possess the necessary knowledge, skills, and abilities to mitigate risks and liabilities. The City's official job classification states that a "Risk Manager serves as an expert in risk identification, risk reduction and risk funding and is responsible for reducing loss resulting from accidents, injury, damage, theft." The job classification goes on to describe examples of a Risk Manager's duties, which include administering "a department or City-wide risk management program," and reviewing "safety and loss prevention program data with the objective to reduce losses."

It remains unclear how the new positions authorized in the FY 2027 Budget will support centralizing the City's liability claim mitigation efforts. In that budget, the CAO's Office received two additional Senior Administrative Analysts, whose core job classification duties focus on budget development and monitoring, rather than risk management. Similarly, the City Attorney's Office was authorized a Deputy City Attorney and Legal Clerk to provide a blend of "proactive legal counseling with meticulous administrative documentation", but did not explain how these roles differ from or expand upon that Office's current responsibility as the City's legal advisor.

The challenges facing Citywide risk management go beyond insufficient staffing. As recommended in our audit, the City should adopt an updated risk management policy and framework that begins with addressing existing uncertainties regarding the role and authority of the City's Risk Manager. This includes addressing the CAO's current inability to access claims data and corrective action reports.

In addition, the new risk management policy and framework should designate a centralized entity that is as responsible for designing accountability mechanisms (such as financial incentives), developing Citywide risk management programs (such as a vehicle safety program), and conducting ongoing oversight of departmental risk management plans. **Only after establishing these foundational prerequisites should the City determine the staffing structure and funding necessary to align with these newly clarified responsibilities**.

Despite these differences in interpretation, we welcome the CAO's agreement that the City must change its risk management approach to reduce liabilities. We look forward to working with the CAO's staff to follow up on their implementation of our audit's recommendations.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

We conducted an audit of the City's risk management practices with a primary focus on the City Administrative Officer's Risk Management Division. Our objectives were to determine:

- How effectively do the City's risk management processes identify, evaluate, respond to, and monitor risks to reduce potential liability payouts?
- What governance, strategic, and communication issues hamper effective Citywide risk management?

Scope

The audit's scope generally covered Citywide risk management processes and practices related to third-party liabilities between FY 2020 and FY 2025. Audit staff reviewed documents and reports released before and after the scope period as needed. We did not examine issues related to first-party liabilities, including workers' compensation or employment matters. The audit also focused on Citywide risk management for Council-controlled departments, and did not include the proprietary departments.

Scope Limitation

The City Attorney's Office did not fully cooperate with this audit. City Attorney staff met with the audit team on one occasion for a background meeting in November 2025. Audit staff followed up to request claim data, and an additional meeting to better understand the City Attorney's risk management processes. City Attorney staff initially agreed to and scheduled a second meeting, but later cancelled it and offered to respond to questions in writing.

Audit staff submitted written requests for information to City Attorney staff related to staffing, risk management data, claims audits, and the City Attorney's processes. Despite reassurances from their staff, the City Attorney's Office ultimately did not respond to our written questions or repeated requests for additional information.

Due to the City Attorney Office's lack of cooperation, we were limited in our ability to fully evaluate the risk management processes they manage, which include claims handling and data, the CityLaw litigation management system, liability cost reports, corrective action reports, and other risk management-related activities. This scope limitation and its various impacts are noted throughout the report where relevant.

Methodology

To complete this audit, we:

- Reviewed state laws related to public entity liabilities and risk management
- Reviewed and analyzed documentation of City efforts related to risk management, including the City's Charter and Administrative Code, policies, executive directives, Council Files, budget documentation, actuarial studies, and risk management plans
- Researched best practices, industry publications and guidelines, prior audits and evaluations, and other information relevant to risk management
- Interviewed staff across the City—including at the CAO's Office, Bureau of Street Services, LAPD, City Attorney's Office, Mayor's Office, Personnel Department, City Clerk's Office, LADOT, LAFD, Recreation and Parks, and LA Animal Services—to learn about risk management processes
- Reviewed and analyzed liability payout information published by the City Attorney's Office and available in the City's Financial Management System
- Conducted an online survey of departmental risk managers at the top 15 City departments in liability payouts and analyzed the results
- Benchmarked risk management practices by reviewing policies, procedures, and other publications, and interviewing key officials from other jurisdictions

How We Ensure Quality

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 and conclusions based on our audit objectives.

APPENDIX A – LIABILITY PAYOUTS BY DEPARTMENT

The table below summarizes liability claim payouts from FY 2020 through FY 2025, categorized by the department assigned by the City Attorney's Office. To select the top 15 departments for our risk manager survey, we excluded payouts that were categorized by the City Attorney's Office as "Labor & Employment" to better align with our audit's focus on third-party liabilities. Because 92% of liability payouts attributed to the Department of Building and Safety (LADBS) were categorized as Labor & Employment, we excluded them from our survey. We also excluded the City Attorney's Office and City Council Offices from our survey. The departments selected for the survey are highlighted in blue.

Table 11. Liability Claim Payouts by City Department

Department	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Total
LAPD	$40.0M	$15.8M	$38.4M	$34.9M	$104.9M	$155.4M	**$389.5M**
Street Services	$28.1M	$14.3M	$19.6M	$28.1M	$38.2M	$58.4M	**$186.7M**
Sanitation	$24.1M	$3.2M	$4.7M	$61.8M	$11.6M	$7.7M	**$113.1M**
Transportation	$12.3M	$16.0M	$10.8M	$10.7M	$19.1M	$21.0M	**$89.9M**
LAHD	$1.4M	$0.1M	$0.8M	-	$38.4M	$3.7M	**$44.4M**
LAFD	$2.6M	$1.0M	$8.3M	$15.5M	$8.2M	$5.4M	**$41.0M**
Rec and Parks	$1.4M	$2.9M	$4.4M	$12.8M	$2.3M	$3.8M	**$27.5M**
Street Lighting	$1.3M	$0.1M	$0.1M	$0.8M	$11.1M	$10.8M	**$24.2M**
Contract Administration	$0.2M	$23.0M	-	-	-	-	**$23.3M**
Engineering	$5.9M	$0.9M	$0.5M	$2.3M	$9.6M	$3.4M	**$22.6M**
Finance	$10.1M	$9.2M	$0.6M	$0.2M	-	$0.6M	**$20.7M**
Animal Services	$0.1M	$0.2M	$1.3M	-	$8.0M	$7.5M	**$17.1M**
City Attorney	$0.1M	$1.0M	$0.9M	$3.1M	$0.8M	$0.7M	**$6.7M**
City Council	$0.5M	$0.5M	-	$2.1M	$1.2M	-	**$4.3M**
LADBS	-	$0.1M	$0.1M	-	-	$3.3M	**$3.5M**
GSD	$0.4M	$0.1M	$0.3M	$0.6M	$0.1M	$0.2M	**$1.8M**
City Planning	$0.7M	$0.2M	-	$0.4M	$0.4M	-	**$1.7M**
ITA	-	-	$0.3M	$0.8M	-	$0.3M	**$1.4M**
All Other Departments	$2.5M	$0.5M	$0.3M	$0.9M	$1.8M	$0.4M	**$6.5M**
Total	**$131.8M**	**$89.2M**	**$91.5M**	**$175.2M**	**$255.8M**	**$282.5M**	**$1.03B**

Source: Analysis of liability payout data in the City's Financial Management System

Acknowledgements

Audit Services Division

The Office of the Controller was created by the Los Angeles City Charter as an independent office, and is headed by the Controller: the elected auditor, paymaster, and chief accounting officer for the City of Los Angeles. Under the Controller's leadership, the Office's Audit Services Division performs audits, investigations, and other oversight functions to help provide transparency, accountability, and improve City services for all Angelenos.

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