

# **CITY AUDITOR'S OFFICE**



## **CITYWIDE AUDIT OF MANAGEMENT CONTROLS OVER INSURANCE CERTIFICATES**

**Report CW014-2021-01**

**July 14, 2020**

**RADFORD K. SNELDING, CPA, CIA, CFE**

**CITY AUDITOR**

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**CITYWIDE AUDIT OF MANAGEMENT CONTROLS  
OVER INSURANCE CERTIFICATES  
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**BACKGROUND**

The City Manager’s Office oversees the operation of eighteen departments/offices (departments) in the city of Las Vegas. These departments regularly issue licenses and permits to the public and enter into various agreements and contracts with outside parties. As a condition for many of these transactions, evidence of insurance coverage is required from the public to protect the city as well as the public from loss. Evidence of insurance is satisfied with the submittal of a Certificate of Liability Insurance (insurance certificate). Insurance certificates contain important details about a party’s insurance coverage. In addition, they summarize essential information about an insurance policy, such as the insurer(s) providing coverage, type of coverage, policy numbers, and insurance limits, including effective and expiration dates. See an example of an insurance certificate in Appendix A.

The city’s Purchasing and Contracts Division within the Department of Finance (Purchasing) and the Office of Community Services utilize an insurance tracking service provider (tracking service) to review and monitor insurance certificates required for contracts and agreements they execute. This tracking service provides for the collection, storage, and specialist review of the insurance coverage against contractual insurance requirements, the completeness of the insurance certificates, endorsements, and waivers, and monitors the status of the insurance policies to ensure they stay in effect throughout the term of the agreements/contracts. The tracking service also identifies and communicates deficiencies to the city and the parties to the agreements/contracts.

Of the city’s eighteen departments, ten have transactions requiring insurance certificates but do not utilize the tracking service and therefore maintain responsibility for ensuring adequate insurance coverage for the city. The staff from these ten departments reported over 2,400 different licenses, permits, contracts, and agreements that require insurance certificates, as listed below.

<b>Departments/Offices</b>	<b>Transaction Types Requiring Insurance Certificates</b>
1 Building & Safety	Encroachment License Agreements
2 Cultural Affairs	Artist Contracts, Special Events, and Facility Use Agreements
3 Economic & Urban Development	Development Agreements/Contracts
4 Finance	Franchise, Wireless, and Other Right-of-Way Agreements
5 Fire & Rescue	Temporary Activity/Event Permits
6 Operations & Maintenance	Cell Tower, Real Estate, and Encroachment Agreements
7 Parks & Recreation	Parks, Sports Fields, Pools, and Facility Rentals
8 Planning	Privileged Business Licenses
9 Public Safety	Dangerous Animal Permits
10 Public Works	Film, Valet Parking, and News Rack Permits

**Source:** Auditor prepared based on discussions with department management and staff.

## OBJECTIVES

Our objective was to evaluate the adequacy of management controls over the review and monitoring of insurance certificates not being monitored by the tracking service, including:

- Oversight of insurance certificate review by city management
- Policies and procedures addressing the review and monitoring of insurance certificates
- Training of department staff on the review and monitoring of insurance certificates
- Tracking methods being used for insurance certificates
- Written insurance requirement guidelines being provided to the public
- Retention of insurance certificates

## SCOPE AND METHODOLOGY

The scope of our work was limited to the management controls within the context of the audit objectives and scope of the audit. Our testing did not include a review of the adequacy of the management controls over insurance certificates being monitored by the tracking service or the adequacy of the services being provided. The scope of the audit was limited to the review of citywide and department policies and procedures that were available during the period of April through October 2019. The last date of fieldwork was November 12, 2019.

Our audit methodology included:

- Review of policy/procedures, applications, and other written guidelines.
- Interviews of city employees and insurance specialists.
- Review of methods used to track insurance certificates.
- Analysis of examples of insurance certificates received.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards, except for the requirement for an external peer review every three years. 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 reasonable basis for our findings and conclusions based on our audit objectives.

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

The following findings and conclusions were noted:

- ***No Citywide Oversight of Insurance Certificate Monitoring*** – The city does not have a formal process, procedures, or staff specifically tasked to provide oversight for departments' receipt, review, and monitoring of insurance certificates. (Finding #1)
- ***Inadequate Department Procedures Over Insurance Certificates*** – Departments receiving insurance certificates have incomplete or lack written procedures on the receipt, review, monitoring, and retention of insurance certificates. (Finding #2)

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- ***No Training Program for Review of Insurance Certificates*** – The city does not have a training program for staff on how to review insurance certificates to ensure compliance with the city requirements and to protect the city from loss. (Finding #3)
- ***Inconsistent Tracking of Insurance Coverage*** – Some departments do not track insurance certificates while the others that do are not consistent with the type and amount of insurance certificate information being recorded into tracking tools. (Finding #4)
- ***Incomplete Insurance Certificate Guidelines*** – Written guidelines on insurance requirements provided to license and permit applicants and included within agreements/contracts are not always clearly defined and documented. (Finding #5)

Further information on these issues is contained in the following sections. While other issues were identified and discussed with management, they were deemed less significant for reporting purposes.

**Contributors to this report included:**

Radford K. Snelding, CPA, CIA, CFE  
City Auditor

Bryan L. Smith, CPA, CFE  
Internal Audit Section Manager

Michael G. Herenick, MPA  
Internal Auditor II

## **1. No Citywide Oversight of Insurance Certificate Monitoring**

### **Criteria**

Governmental standards for internal controls state the following:

*Management should remediate identified internal control deficiencies on a timely basis. Either the oversight body or management oversees the prompt remediation of deficiencies by communicating the corrective actions to the appropriate level of the organizational structure and delegating authority for completing corrective actions to appropriate personnel.*

The city's Adding, Revising and Deleting Policies/Procedures (CM601) states the following:

*The City Manager is responsible for initiating, soliciting, and/or delegating development of citywide policies and procedures necessary to support the efficient and effective operations of the city; and providing final approval for citywide policies and procedures.*

*The City Attorney's Office is responsible for ensuring that citywide policies/procedures are consistent with federal, state and local laws as well as other city policies/procedures, collective bargaining agreements, and any other governing documents as defined herein.*

### **Condition**

Based on discussions with department staff and review of citywide policies/procedures, the following deficiencies were noted:

- No formal citywide process exists to monitor department receipt, review, and monitoring of insurance certificates.
- No city staff have specifically been tasked to provide citywide oversight of the monitoring of insurance certificates received by departments.
- No documented citywide policy/procedures exist giving direction to departments on their roles and responsibilities for the receipt, review, monitoring, and retention of insurance certificates and endorsement documents.

### **Cause**

- City management has not developed a formal methodology and process for reviewing and monitoring insurance certificates for verification of insurance coverage.

### **Effect**

- Inconsistencies exist between departments in how insurance certificates are being reviewed and monitored.
- The city does not have assurance appropriate insurance coverage is being obtained and is in effect for all agreements/contracts, permits, and licenses where required, thereby putting the city at greater risk of loss.
- Without a formal citywide process to oversee and monitor department review of insurance certificates, the city is at risk of inadequate, improper, and deficient insurance coverage.

## Recommendations

- 1.1 The City Manager's Office should develop and implement a citywide process for the oversight of the receipt, review, monitoring, and retention of insurance certificates by city departments. The City Manager's Office should identify and document all departments receiving insurance certificates and their insurance coverage requirements. An evaluation should then be conducted to determine whether the coverages are consistent with the City of Las Vegas Municipal Code and appropriate for each of the related agreements/contracts, licenses, and permits.
- 1.2 The City Manager's Office should develop, document, and implement citywide policies and procedures to address the following:
  - City management position(s) responsible for monitoring compliance with citywide and department procedures.
  - Roles and responsibilities of city departments in the receipt, review, and monitoring of insurance certificates.
  - Training of city employees to ensure adequate review and monitoring of insurance certificates.
  - Specific retention requirements for insurance certificates.
- 1.3 The City Manager's Office should upload a final signed copy of the citywide insurance certificate oversight policies and procedures to the City of Las Vegas Governance Portal.

## 2. Inadequate Department Procedures Over Insurance Certificates

### Criteria

Governmental standards for internal controls state the following:

*Each unit, with guidance from management, documents policies in the appropriate level of detail to allow management to effectively monitor the control activity. Management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities.*

The city's Adding, Revising and Deleting Policies/Procedures (CM601) states the following:

*Deputy City Managers are responsible for:*

1. *Initiating department policies/procedures and Standard Operating Procedures (SOPs)/work rules as necessary; and*
2. *Reviewing department policies/procedures, and SOPs/work rules.*

### Condition

City departments that do not rely upon the tracking service have the responsibility to receive, review, and monitor the evidence of insurance required for agreements/contracts, licenses, and permits. Of these departments, all ten either have incomplete or lack written procedures to address

the department processes for the receipt, review, monitoring, and retention of insurance certificates.

- 8 of the 10 do not have written department procedures for insurance compliance.
- 2 of the 10 have incomplete written department procedures for insurance compliance.

Department procedures have not been developed to provide staff with guidance to ensure an adequate review of insurance certificates is completed and to address the verification of the following:

- Appropriate coverage, term, and policy limits, and completion of insurance boxes on the insurance certificate.
- Financial strength rating of an insurance company.
- Insurance companies are registered to do business in the state of Nevada.
- Proper identification of the city being named as an additional insured.
- Proper endorsement documents have been received.

Department staff stated that they:

- Were unclear of how to appropriately complete a review of insurance certificates.
- Were unaware of written procedures on how to appropriately complete a review of insurance certificates.
- Had not received formalized training on how to complete a review of insurance certificates.

### **Cause**

- Department management have not developed a formalized process and responsibilities for staff to receive, review, and monitor the evidence of insurance required for agreements/contracts, licenses and permits.

### **Effect**

- Without department procedures, the city does not have assurance appropriate insurance coverage has been obtained and is in effect to cover claims, thereby putting the city at greater risk of loss.
- Department management does not have assurance that staff will carry out insurance certificate review and monitoring responsibilities correctly, effectively, and efficiently.

### **Recommendation**

- 2.1 The City Manager's Office should work with department management to develop/update, document, and implement policy/procedures to provide direction to staff on their responsibilities for the receipt, review, monitoring, and retention of insurance certificates.



### **3. No Training Program for Review of Insurance Certificates**

#### **Criteria**

Governmental standards for internal controls state the following:

*Effective management of an entity's workforce, its human capital, is essential to achieving results and an important part of internal control. Only when the right personnel for the job are on board and are provided the right training, tools, structure, incentives, and responsibilities is operational success possible. Management continually assesses the knowledge, skills, and ability needs of the entity so that the entity is able to obtain a workforce that has the required knowledge, skills, and abilities to achieve organizational goals.*

#### **Condition**

No formalized citywide training program exists for staff on how to appropriately review insurance certificates to ensure insurance requirements have been met in order to protect the City from any claims which may arise. Based on discussions, 25 of 28 department staff directly involved with the receipt of insurance certificates have not received formal training on how to properly review insurance certificates.

#### **Cause**

- City management has not performed an assessment of the training needs of staff designated to collect and review insurance certificates.

#### **Effect**

- The city does not have assurance appropriate insurance coverage has been obtained and is in effect to cover claims, thereby putting the city at greater risk of loss.
- Without a formal citywide training program for review of insurance certificates, inconsistent and incomplete review practices are present, thereby increasing the city's risk exposure.

#### **Recommendations**

- 3.1 The City Manager's Office working with department management should identify and document all city employees involved with reviewing insurance certificates.
- 3.2 The City Manager's Office should develop, document, and implement a training program on the review and monitoring of insurance certificates.

## **4. Inconsistent Tracking of Insurance Coverage**

### **Criteria**

Governmental standards for internal controls state the following:

*Control activities can be implemented in either an automated or a manual manner. Automated control activities tend to be more reliable because they are less susceptible to human error and are typically more efficient.*

*Management evaluates issues identified through monitoring activities or reported by personnel to determine whether any of the issues rise to the level of an internal control deficiency.*

### **Condition**

Inconsistencies were identified in the type and amount of insurance certificate information being recorded into tracking tools (such as Excel, Access, Infor, and Hansen) by department staff to monitor compliance and deficiencies of insurance coverage. Of the ten departments not utilizing the outside tracking service, two do not utilize a tracking tool to record insurance certificate information. None of these departments record evidence of the staff review of insurance certificates and endorsement documents. The following inconsistencies were found between the eight departments that utilize a tracking tool to monitor insurance certificate information.

- 7 do not have written procedures on data entry of insurance certificate information.
- 7 do not input sufficient detail of the type of insurance and amounts of coverage.
- 4 do not input data to acknowledge whether an insurance certificate was received.
- 4 do not input the effective and expiration dates to monitor insurance coverage.

To be effective, the use of a tracking tool must be accompanied by a process in which the data within the tool is regularly reviewed for deficiencies and the deficiencies promptly addressed. One department was found to be gathering sufficient information on insurance certificates within a tracking tool; however, deficiencies, such as expired insurance policies, were not being promptly addressed and communicated to upper management.

Rather than utilizing an insurance tracking tool for the insurance certificates, Purchasing and the Office of Community Services utilize an outside tracking service. While utilization of the tracking service may not be feasible for all departments, there may be opportunities for use of the tracking service by certain departments to improve their monitoring of insurance certificates.

### **Cause**

- City management has not developed an oversight process to monitor the tracking of insurance certificates and coverage deficiencies.

## **Effect**

- Without tracking insurance certificate information, the city does not have assurance that liability coverage is valid and still in effect for all permits, licenses, and agreements/contracts, thereby increasing risk exposure.
- Without tracking information from insurance certificates, the status of compliance with requirements is not readily available.

## **Recommendations**

- 4.1 The City Manager's Office should direct management of the departments receiving insurance certificates to develop and implement written policy/procedures to address the tracking and monitoring of insurance certificate information. These policies and procedures should include the following:
- Instructions on the use of the tool to track insurance certificate information.
  - Staff responsible for data input of insurance certificate information.
  - Staff responsible for review of data and identification of deficiencies.
  - Process to address deficiencies and identification of staff involved.
  - Management responsibilities for oversight of this process.
- 4.2 The City Manager's Office should evaluate whether additional departments would benefit from the utilization of the tracking service. If the decision is made to expand the use of the tracking service to other departments, the City Manager's Office should ensure that documented procedures are created outlining their roles and responsibilities in utilizing the tracking service and that staff are properly trained.

## **5. Incomplete Insurance Certificate Guidelines**

### **Criteria**

Application and agreement/contract requirements must be clearly defined and documented to help ensure that all required information and documentation is submitted by applicants and parties to contracts.

### **Condition**

Based on review of written guidelines provided to license and permit applicants and guidelines included within agreements/contracts, the insurance requirements were not always clearly defined and documented as evidenced by the following:

- Guidelines provided by some departments only listed the requirement for an insurance certificate and the required coverage amounts, while other departments clearly documented other requirements such as the city needing to be named as an additional insured party, insurance coverage needing to be issued by a carrier authorized in the State of Nevada, and the insurance company's rating needing to be disclosed on the certificate.

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- Guidelines did not always require that a description of the associated project, event, or another unique identifier be referenced on the insurance certificate.
- Guidelines did not always provide an accurate address and name of the department where the insurance certificate and endorsements should be sent.

The following are examples of the consequences of incomplete guidelines being provided to license and permit applicants and parties to agreements/contracts:

- Over 150 insurance certificates, including cancellation notices, lacking identifiable department information were routed to and collected by the Department of Human Resources during the period of this audit.
- Staff from multiple departments reported receiving unidentifiable insurance certificates and cancellation notices in the mail.

### **Cause**

- City management has not developed a citywide process to oversee and review the adequacy of the insurance requirement guidelines being provided by departments to license and permit applicants and parties to agreements/contracts.

### **Effect**

- Insurance certificates received may be incomplete and insurance coverage deficient.
- Insurance certificates are not always sent to the appropriate department for review in a timely manner resulting in unidentified and incomplete evidence of insurance.

### **Recommendations**

- 5.1 The City Manager's Office should direct department management to update guidelines provided to license and permit applicants to require that insurance certificates be properly addressed and referenced and include all insurance requirements.
- 5.2 The City Manager's Office should work with the City Attorney's Office to update written guidelines within city agreements/contracts with insurance provisions to include language requiring that the associated department name and descriptions of the project or event be clearly referenced on the insurance certificate. These requirements should be documented in the citywide policy/procedures.



## APPENDIX B: Additional Insured Endorsement Example

POLICY NUMBER:

COMMERCIAL GENERAL LIABILITY

CG 20 10 07 04

**THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.**

### **ADDITIONAL INSURED – OWNERS, LESSEES OR CONTRACTORS – SCHEDULED PERSON OR ORGANIZATION**

This endorsement modifies insurance provided under the following:

COMMERCIAL GENERAL LIABILITY COVERAGE PART

SCHEDULE

Name Of Additional Insured Person(s) Or Organization(s):	Location(s) Of Covered Operations
Information required to complete this Schedule, if not shown above, will be shown in the Declarations.	

A. Section II – Who Is An Insured is amended to include as an additional insured the person(s) or organization(s) shown in the Schedule, but only with respect to liability for "bodily injury", "property damage" or "personal and advertising injury" caused, in whole or in part, by:

1. Your acts or omissions; or
2. The acts or omissions of those acting on your behalf;

in the performance of your ongoing operations for the additional insured(s) at the location(s) designated above.

B. With respect to the insurance afforded to these additional insureds, the following additional exclusions apply:

This insurance does not apply to "bodily injury" or "property damage" occurring after:

1. All work, including materials, parts or equipment furnished in connection with such work, on the project (other than service, maintenance or repairs) to be performed by or on behalf of the additional insured(s) at the location of the covered operations has been completed; or
2. That portion of "your work" out of which the injury or damage arises has been put to its intended use by any person or organization other than another contractor or subcontractor engaged in performing operations for a principal as a part of the same project.

## MANAGEMENT RESPONSE

### 1. No Citywide Oversight of Insurance Certificate Monitoring

- 1.1 The City Manager's Office should develop and implement a citywide process for the oversight of the receipt, review, monitoring, and retention of insurance certificates by city departments. The City Manager's Office should identify and document all departments receiving insurance certificates and their insurance coverage requirements. An evaluation should then be conducted to determine whether the coverages are consistent with the City of Las Vegas Municipal Code and appropriate for each of the related agreements/contracts, licenses, and permits.

#### Management Action Plan:

We concur with the recommendation and the need for the City Manager's Office to provide oversight and guidance on the citywide insurance certificate monitoring process. However, as the cost of internal controls should not exceed the benefit of the controls, in consultation with the City Attorney's Office, we have revised the language in certain licenses and permits (i.e., encroachment licenses thus far) to rely on indemnification language rather than requiring insurance. Additionally, we are confident that our indemnification language, as well as applicable law, protects the City's interests on the older encroachment licenses. Therefore, we will not be pursuing updates to insurance for those licenses.

**Estimated Date of Completion:** October 1, 2020

- 1.2 The City Manager's Office should develop, document, and implement citywide policies and procedures to address the following:
- City management position(s) responsible for monitoring compliance with citywide and department procedures.
  - Roles and responsibilities of city departments in the receipt, review, and monitoring of insurance certificates.
  - Training of city employees to ensure adequate review and monitoring of insurance certificates.
  - Specific retention requirements for insurance certificates.

#### Management Action Plan:

We concur with the recommendations. During the fiscal year 2021 budget process, we explored the establishment of a centralized Risk Management Office. Unfortunately, due to the COVID-19 pandemic and the significant impact it has had on the economy, we were unable to move forward with any additional positions in the budget. However, we will work to complete each of the above bullets with the current decentralized approach.

**Estimated Date of Completion:** December 31, 2020

- 1.3 The City Manager's Office should upload a final signed copy of the citywide insurance certificate oversight policies and procedures to the City of Las Vegas Governance Portal.

**Management Action Plan:**

We concur with the recommendation.

**Estimated Date of Completion:** December 31, 2020

**2. Inadequate Department Procedures Over Insurance Certificates**

- 2.1 The City Manager's Office should work with department management to develop/update, document, and implement policy/procedures to provide direction to staff on their responsibilities for the receipt, review, monitoring, and retention of insurance certificates.

**Management Action Plan:**

We concur with the recommendation and will work with each relevant department to ensure that policies and procedures are in place and that there is training provided to all relevant staff on the receipt, review, monitoring, and retention of insurance certificates.

**Estimated Date of Completion:** December 31, 2020

**3. No Training Program for Review of Insurance Certificates**

- 3.1 The City Manager's Office working with department management should identify and document all city employees involved with reviewing insurance certificates.

**Management Action Plan:**

We concur with the recommendation and appreciate the work of the City Auditor's Office in compiling the initial listing of department employees currently involved in reviewing insurance certificates. This listing will be verified and amended as necessary, on a no less than annual basis.

**Estimated Date of Completion:** December 31, 2020

- 3.2 The City Manager's Office should develop, document, and implement a training program on the review and monitoring of insurance certificates.

**Management Action Plan:**

We concur with the recommendation and will implement a training program during fiscal year 2021.



**Estimated Date of Completion:** March 31, 2021

#### **4. Inconsistent Tracking of Insurance Coverage**

4.1 The City Manager's Office should direct management of the departments receiving insurance certificates to develop and implement written policy/procedures to address the tracking and monitoring of insurance certificate information. These policies and procedures should include the following:

- Instructions on the use of the tool to track insurance certificate information.
- Staff responsible for data input of insurance certificate information.
- Staff responsible for review of data and identification of deficiencies.
- Process to address deficiencies and identification of staff involved.
- Management responsibilities for oversight of this process.

##### **Management Action Plan:**

We concur that we need to have a comprehensive citywide policy/procedure that addresses each of the above bullets. Although, our preference was to approach this in a more centralized fashion with the creation of a citywide Risk Management Office which would have been responsible for ensuring that departments follow the policy/procedure, budget constraints due to the COVID-19 pandemic did not allow that to happen. Rather, most City departments have had positions eliminated or frozen making the tracking of insurance coverage even more difficult. Despite these challenges, we will attempt to develop and implement a comprehensive citywide policy/procedure that encompasses the unique nature of the departments that receive insurance information.

**Estimated Date of Completion:** December 31, 2020

4.2 The City Manager's Office should evaluate whether additional departments would benefit from the utilization of the tracking service. If the decision is made to expand the use of the tracking service to other departments, the City Manager's Office should ensure that documented procedures are created outlining their roles and responsibilities in utilizing the tracking service and that staff are properly trained.

##### **Management Action Plan:**

We concur that additional departments would benefit from using our insurance certificate tracking service and that the service is a cost effective way of monitoring and ensuring compliance with our insurance requirements. We had hoped to include additional funding for the service in the fiscal year 2021 budget. However, due to budget constraints we were not able to increase the budget. Despite this challenge, we will seek to maximize the benefits of the insurance certificate tracking service and will ensure that procedures on how to utilize the service are documented along with clear roles and responsibilities.

**Estimated Date of Completion:** December 31, 2020

## **5. Incomplete Insurance Certificate Guidelines**

- 5.1 The City Manager's Office should direct department management to update guidelines provided to license and permit applicants to require that insurance certificates be properly addressed and referenced and include all insurance requirements.

### **Management Action Plan:**

The City Manager's Office worked in consultation with the City Attorney's Office to first determine whether or not to continue to require insurance certificates for certain licenses and permits (i.e., encroachment licenses thus far). We have determined that we can rely on the indemnification language and applicable law to protect the City's interests and have removed the insurance requirements going forward and do not plan to pursue updates to insurance certificates on existing encroachment licenses. We concur with the recommendation for those licenses and permits that will still require insurance.

**Estimated Date of Completion:** December 31, 2020

- 5.2 The City Manager's Office should work with the City Attorney's Office to update written guidelines within city agreements/contracts with insurance provisions to include language requiring that the associated department name and description of the project or event be clearly referenced on the insurance certificate. These requirements should be documented in the citywide policy/procedures.

### **Management Action Plan:**

We concur with the recommendation and will work with the City Attorney's Office on an update to the written guidelines which will be included in the citywide policy/procedure.

**Estimated Date of Completion:** December 31, 2020