



Office of the City Auditor and Clerk

Risk Management Liability Claims Administration Audit # EX 10-01

Detailed Audit Report

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Risk Management Liability Claims Administration
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AUDIT PURPOSE

This audit was added to the 2009-2012 Internal Audit Schedule to review claim administration practices for self-insured vehicle, general and police liability claims. The Risk Management Division has not been audited by Internal Audit in the last decade.

AUDIT SCOPE

The audit scope consisted of observing claims administration practices for self-insured fleet, general and police liability claims for the three year period from October 1, 2007-September 30, 2009. Claim administration procedures for workers' compensation liability, employment practices liability and various other types of liability claims were outside the scope of this audit.

REPORT CONTENT AND LIMITATION OF USE

Department management is responsible for establishing and maintaining a system of internal controls. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposal, and that transactions are executed in accordance with management's authorization on a timely basis.

Due to the inherent limitations in any system of internal accounting controls, errors or irregularities may occur and not be detected in a timely fashion.

Readers of this report are cautioned that an internal audit is not designed to detect all weaknesses in internal control or accounting procedures as it is not performed continuously throughout the period and the observations noted by Internal Audit are based on the results of sample testing.

AUDIT OBJECTIVES

Internal Audit's overall objective in performing the audit was to assist management with the assessment of internal controls related to the liability claims administration process which encompasses claim intake and processing, adjusting, resolution, closure and reporting to determine whether:

1. Adequate controls have been implemented to address risks;
2. Changes in internal controls have taken place since the 2009 Risk Assessment; and
3. Management has accepted a level of risk that is acceptable to the organization.

AUDIT TESTING METHODOLOGY

Internal Audit interviewed and observed City employees involved in the liability claims administration process, flowcharted the process, reviewed sample claim files and claim reports, reviewed claim payments and supporting documentation and evaluated management's level of oversight over the claim process.

BACKGROUND

Risk Management Division staffing and duties and responsibilities:

The Risk Management Division is currently part of the Human Resources Department and reports to the Director of Human Resources. The Risk Management Division was previously part of the Financial Administration Department. The division currently has two employees, a Risk Manager and a Risk Management Analyst, both of whom are long-term employees. The Risk Manager possesses a Florida All Lines Independent Adjuster License.

The Risk Management Division is involved in administering a wide variety of typical claims including property, workers' compensation, general liability, automobile liability as well as claims that occur more infrequently such as Employment Liability and Public Official liability claims.

Claimants or attorneys submit claims to a variety of offices in the City in addition to Risk Management, including Public Works, the City Manager's Office, and the City Attorney's Office. One of the greatest challenges faced by the Risk Management Division is obtaining prompt notification of both new or changed exposures (due to new equipment, programs, changes in operations, etc.) and reported incidents and claims so that they can begin taking steps to protect the City's interests by adding the new exposure to a policy or conducting a claim investigation since these events are not required to be centrally reported.

Risk Management responds to a number of incidents daily that may never turn into actual claims but require extensive time to research and review. The incidents may not become claims for a variety of reasons, such as when they occur outside City limits, do not involve a City employee, or are unrelated to City operations. For some types of claims, such as workers' compensation claims, police liability or property claims, Risk Management's role encompasses recording the initial claim report and reporting the claim to an insurer or third party administrator, and then acting as a liaison between the insurer and City Departments to obtain necessary supporting documentation or conducting investigations. Other claims, such as vehicle, and general liability are completely handled by Risk Management including claim intake, adjusting, payment or denial and closure.

The Risk Management Division performs a variety of additional functions to avoid, reduce, mitigate or transfer risks faced by the City including safety inspections and training, reviewing insurance certificates provided by vendors and others, performing annual drivers license reviews for employees who drive city or personal vehicles, and performing pre-employment background reviews for applicants or new hires. Claim adjusters work with claimants who may be unfamiliar

with insurance and often have to communicate decisions to deny payment to parties who have sustained actual damage (such as hitting a pothole) that may appear to be within the City's responsibility, but may not be once the facts are determined.

The annual commercial insurance renewal process is one in which the Risk Management Division takes the lead role. Risk Management obtains renewal statistical data, and works in conjunction with the City's broker to review alternate proposals and negotiate policy terms and conditions. Throughout the year, Risk Management communicates with insurers and assists in providing requested information relating to new claim submissions and open claims.

Types of Self-Insured Claims Handled by the Risk Management Division:

General and Vehicle Liability - The City is self-insured for general and vehicle liability coverage, and relies on state statutes, which limit damage awards against state and local governments to \$100,000 per claim and \$200,000 per occurrence. While unusual, the state legislature has overridden the statutes on occasion.

Police Liability - This program provides indemnification to police officers while acting on behalf of the City. The City is partially self-insured on a per claim basis up to \$25,000 and for amounts in excess of \$1,000,000. The City has insurance coverage for claims between these two limits.

AUDITOR STATEMENT REGARDING RISKS AND CONTROLS

The Risk Management Division participated fully in the 2009 Risk Assessment process. For this audit, Internal Audit determined that only one risk and three of the controls contained in the Risk Management Division's 2009 Risk Assessment specifically pertained to liability claims, which then formed the basis for part of Internal Audit's testing.

Based on the sample testing performed of the risk and three controls, Internal Audit determined that residual risk for the liability claims administration function exceeded the medium level of risk and medium level of impact identified by the Charter Officials as acceptable. Management has indicated it will review the design and effectiveness of existing controls or consider implementing new or additional controls on a priority basis.

Internal Audit met with the Risk Management Division to discuss areas of risk or controls noted during audit that were not included in the 2009 Risk Assessment that should be considered for management's inclusion in the 2010 Risk Assessment.

AUDIT OBSERVATIONS AND RECOMMENDATIONS

Internal Audit's observations and recommendations of a medium or high priority level are summarized in the table beginning on **page seven**.

Internal Audit observations which are classified as routine in nature do not appear in this report, but have instead been provided directly to the Department Director for review and consideration.

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Risk Management Claims Review
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Audit # EX 10-01 Observations, Recommendations and Proposed Management Actions				
Observation/Recommendation/Priority	Concur	Do not concur	Proposed Management Action	Committed Management Action Date
<p>1. Observation-The Risk Management Division does not have formal written policies and procedures. Policies and procedures should fully address claims administration methodologies including steps to be taken during claims investigations, acceptance/rejection of liability, file reserving and subrogation/recovery efforts.</p> <p>Recommendation-Develop formal written policies and procedures to ensure consistency and completeness in claim administration.</p> <p>Priority-High</p>	X		<p>Risk Management has developed a written policy draft and is currently reviewing and making comprehensive enhancements to the draft for claims administration as well as subrogation steps.</p>	June 1, 2010
<p>2. Observation-The Risk Management Division could utilize web technology to streamline the claims reporting process. Risk Management Division staff primarily enter files received via phone, fax, in person or via e-mail into a spreadsheet to track claims.</p> <p>Recommendation- Offer the public the opportunity to file claims through the City Website electronically. This method should be accompanied by a frequently asked questions (FAQ) page-perhaps in English and Spanish on the website explaining the most common types of claims (e.g. slips and falls, potholes, water/sewer damage, etc.) and how they are handled. A properly developed informational intake page may serve to reduce staff time on verbal claims intake, reduce the number of nuisance claims and standardize claim information required and provide written evidence in the event of claimant fraud.</p> <p>Priority-Medium</p>	X		<p>Risk Management will continue to explore other public entities for best-in-class online liability claims reporting capability.</p> <p>Security/exemption standards are being reviewed to ensure that confidential information is protected pursuant to Federal and State law.</p>	May 1, 2010

Audit # EX 10-01 Observations, Recommendations and Proposed Management Actions

Observation/Recommendation/Priority	Concur	Do not concur	Proposed Management Action	Committed Management Action Date
<p>3. Observation- The Risk Management Division does not currently utilize automated risk management software to record, track or manage claims.</p> <p>The Risk Management Division relies upon manual files and Excel spreadsheets stored on the network, which may not be readily accessible during a disaster. Risk Management duties would increase in importance after a disaster due to the increased use of law enforcement, opportunities for auto accidents and general liability claims (as well as workers' compensation claims).</p> <p>Recommendation-Consider purchasing a Risk Management Information System (RMIS) that would allow tracking and trend analysis for incidents and claims by type and provide the Risk Management and City Attorney staff with access. Establish claim reserves and include payment data so that the full cost of claims is tracked and claim development can be monitored. While this will involve an initial capital outlay and to a lesser extent annual maintenance fees, the efficiencies and claims management opportunities provided by this system if properly implemented should result in long term savings over a period of years.</p> <p>The claims system should also include a historical database of commercial policy information including deductible levels for program financial analysis and evaluating the effectiveness of self-insuring at various retention levels.</p> <p>Priority-High</p>	X		<p>If funds can be secured in the FY 2011 budget, Risk will issue an RFP to purchase a web-based system.</p> <p>System implementation will be phased throughout 2010 and 2011.</p> <p>In the interim, Risk is exploring the possibility of temporarily utilizing a Windows-based data management system.</p>	April 15, 2010

List of Exhibits

Exhibit A Description of Internal Audit Recommendation Priorities

Exhibit B Historical Claims Information FY 2006-FY 2008

Exhibit A- Description of Internal Audit Recommendation Priorities

Internal Audit utilizes the following classification scheme applicable to internal audit recommendations and the appropriate corrective actions:

Priority Level ¹	Description	Implementation Action ³
High	Fraud or serious violations are being committed, security issues, significant financial or non-financial losses are occurring. ²	Immediate
Medium	A potential for incurring moderate financial or equivalent non-financial losses exists. ²	Within 60 days
Routine	Operation or administrative process will be improved.	60 days to 6 months

¹ The City Auditor and Clerk is responsible for assigning internal audit recommendation priority level categories. A recommendation that clearly fits the description for more than one priority level will be assigned the higher level.

² For an audit recommendation to be considered related to a significant financial loss, it will usually be necessary for an actual loss of \$25,000 or more to be involved, or for a potential loss (including unrealized revenue increases) of \$50,000 to be involved. Equivalent non-financial losses would include, but not be limited to, omission or commission of acts on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its citizens.

³ The implementation time frame indicated for each priority level is intended as a guideline for establishing target dates. Determining proposed action dates is the responsibility of the Charter Official(s) over the area(s) or function(s) audited.

EXHIBIT B-Historical Claims Information FY 2006-FY 2008

The following table summarizes claims historical information from fiscal 2006-2008, from the most recently available actuarial report dated 9/30/08 unless otherwise indicated by footnote below:

Fiscal Year	Number of Claims	Paid Losses (for current and prior open claims)
Vehicle Claims		
FY 2006	14	\$57,502
FY 2007	19	\$62,565
FY 2008	22	\$95,433
General Liability Claims⁽¹⁾		
FY 2006	N/A	N/A
FY 2007	N/A	N/A
FY 2008	N/A	N/A
Police/Public Official Liability Claims⁽²⁾		
FY 2006	34	\$71,210
FY 2007	30	\$431,930 ⁽³⁾
FY 2008	16	\$83,165

⁽¹⁾General Liability Claims Information is not available as it is not part of the Actuarial report.

⁽²⁾Public Official Liability Claims are not part of this audit, but are combined with Police Liability Claims in the Actuarial report.

⁽³⁾Includes an additional \$253,000 for a jury award reported in FY 06, but not paid until FY 07.