



CITY OF SAN ANTONIO

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September 19, 2019

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SUBJECT: Audit Report of Risk Management Liability Claims Management

Mayor and Council Members:

We are pleased to send you the final report of the Audit of Risk Management Liability Claims Management. This audit began in September 2018 and concluded with an exit meeting with department management in August 2019. Management's verbatim response is included in Appendix B of the report. The Risk Management Department management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio

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CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR



Audit of Risk Management

Liability Claims Management

Project No. AU18-016

September 19, 2019

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Risk Management department specifically concerning the liability claims management process. The audit objectives, conclusions, and recommendations follow:

Determine if in-house liability claims are managed in accordance with internal policies and State statutes.

Risk Management is managing in-house liability claims in accordance with internal policies and State statutes. Internal policies are consistent with State statutes. Additionally, Risk Management is establishing an adequate reserve for liability claims. Risk Management is also producing the monthly reconciliation and performance measure reports. Finally, Risk Management is adhering to the regulatory requirements in the Texas Tort Claims Act and the City Charter.

However, we identified an area in need of improvement. Risk Management does not have a documented process in place to control access to VOS. We recommend the Director of Risk Management implement a process to manage access to VOS that includes granting, changing, delimiting, and monitoring access.

Management agreed with the audit finding and has developed a positive action plan to address it. Management's verbatim response is in Appendix B on page 6.

Other Matters

During the audit of Risk Management Liability Claims Process, we became aware of a potential fraud within the claims process. As a result, we expanded the scope of our testwork in terms of number of files reviewed and items reviewed. Also, upon notification of the potential fraud, Finance engaged KPMG to perform a forensic analysis of claims data. Also, the Office of Municipal Integrity was involved during the investigation.

The initial fraud discovered was perpetrated by the creation and processing of a fraudulent invoice associated with a legitimate claim. The amount of the theft was \$5,000. The employee was confronted and admitted to the theft. Department management and Human Resources took appropriate action against the employee.

As the investigation progresses, additional suspicious transactions were discovered through data analysis of claim transactions and expanded testing. To

date, we suspect \$30,073.70 in missing funds via various fraudulent acts within the claim process.

SAPD was notified of the theft and currently has opened an investigation on this issue. Relevant documentation has been provided to SAPD for further investigation and potential submission to the District Attorney's Office.

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Background

The San Antonio Defined Self-Insurance and Risk Management Program established policies, rights and duties related to the administration of claims against the City. The Risk Management department is responsible for the administration of claims and operates in conjunction with the City Attorney's Office in matters of litigation. Claims can include both property damage and bodily injury. Examples of these types of claims would be damage sustained to a vehicle during an automobile accident and any related physical injury. Additionally, Risk Management is responsible for subrogation recovery against third parties responsible for injury to City employees and damage to City property.

Department personnel use the Valley Oaks System (VOS) to set up all claims, record notes, and track financial information pertaining to the claim. All claims are paid out of the City's self-insurance fund and Risk Management is responsible for overseeing this fund. For FY 2018, the City paid approximately \$4.4 million in claims.

Audit Scope and Methodology

The audit scope was the liability claims process for FY 2018.

We interviewed staff regarding the liability claims process, the reporting process including monthly reconciliations and performance measures, VOS access, and subrogation payments. To gain a better understanding of the liability claims process we reviewed the Liability Claims Administration Procedures Manual, the Texas Tort Claims Act, and the relevant sections of the City Charter.

Testing criteria included the Liability Claims Administration Procedures Manual, the Texas Tort Claims Act, the City Charter, and Administrative Directive 7.8d Access control.

As part of our testing procedures we verified if liability claims payments had the appropriate approvals and supporting documentation and if VOS was accurately updated with claims payments. We also determined if subrogation payments were properly recorded in SAP. Additionally, we determined if Risk Management had established appropriate reserves for liability claims payments.

We also determined if liability claims were paid in adherence to the standards in the Texas Tort Claims Act and the City Charter. Additionally, we verified if Risk Management was producing the required monthly reports in the form of reconciliation reports and performance measures. Finally, we determined if users had appropriate access to VOS.

We relied on computer-processed data in the SAP system and VOS to perform the claims payment testing. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included obtaining the population of claim payments from VOS, tracing the claim payment into SAP, reviewing the associated approvals, and obtaining and reviewing the attached supporting documentation. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

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.

Audit Results and Recommendations

A. Liability Claims Processing and Reporting

Unrelated to the potential fraud, we reviewed a judgmental sample of 58 liability claims payments from FY 2018 totaling approximately \$1.7 million and determined they were properly approved and had adequate supporting documentation.

Risk Management is also adequately setting reserves for liability claims. We reviewed a random sample of 25 closed claims in FY 2018 totaling approximately \$139 thousand and determined they had an adequate reserve established.

Finally, Risk Management is effectively performing the SAP to VOS reconciliation and reporting performance measures. We selected four months in FY 2018 and obtained the monthly SAP to VOS reconciliation report. Risk Management is identifying and correcting any differences between SAP and VOS. We also selected four months in FY 2018 and obtained the monthly performance measure report. We determined Risk Management met their performance measures for FY 2018.

Recommendations

None

B. Regulatory Requirements

Risk Management is processing liability claims in accordance with the requirements in the Texas Tort Claims Act and the City Charter. The Texas Tort Claims Act requires claims to be filed within 180 days from the incident date while the City Charter requires claims to be filed within 90 days. We reviewed a random sample of 25 new claims opened in FY 2018 from a population of 312 and determined they adhered to the requirements in both the Texas Tort Claims Act and the City Charter.

Recommendation

None

C. VOS Access

Risk Management does not have a documented process in place to control access to VOS. This includes granting, changing, revoking, and monitoring access. Administrative Directive 7.8d Access Control states that "Access authorization should be formal, well-defined, documented and an auditable process" and "Logical and physical access controls implemented should be risk-based. Once

access controls are implemented, they must be audited at least on an annual basis". Inappropriate access to VOS could result in a breach of confidentiality between Risk Management and the claimant.

Recommendations

The Director of Risk Management should implement a process to manage access to VOS that includes granting, changing, delimiting, and monitoring access.

Other Matters – Additional Recommendations

During the audit, we became aware of a potential fraud within the claims process. As a result, we expanded the scope of our testwork in terms of number of files reviewed and items reviewed. Our additional testwork was based on certain characteristics present in claim files. Also, upon notification of the potential fraud, Finance engaged KPMG to perform a forensic analysis of claims data. We worked with KPMG to share resources and identify additional suspect claim files. Also, the Office of Municipal Integrity was involved during the investigation.

The initial fraud discovered was perpetrated by the creation and processing of a fraudulent invoice associated with a legitimate claim. The amount of the theft was \$5,000. The employee was confronted and admitted to the theft. Department management and Human Resources took appropriate action against the employee.

Through analysis of the potential fraud, several areas of the process were identified where existing controls were circumvented. As the investigation progressed, additional suspicious transactions were discovered through data analysis of claim transactions and expanded testing. To date, we have identified \$30,073.70 suspected as missing funds via various fraudulent acts within the claims process.

Based on our analysis, we make the following recommendations to further strengthen the control environment for claims payments.

- Use of manual check pick-up should be limited and require management approval. Checks should be mailed to the payee directly from Finance.
- Strengthen controls surrounding the use of electronic signatures.
- Increase segregation of duties by requiring someone outside of the individual claim processing to provide final review and approval of payments.
- Develop controls to periodically review incidents at a claim aggregate limit amount in addition to an individual payment amount.

Appendix A – Staff Acknowledgement

Buddy Vargas, CIA, CFE, Audit Manager
Douglas Francis, Auditor in Charge
Hedei Arias, CFE, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

August 20, 2019

Kevin W. Barthold, CPA, CIA, CISA
 City Auditor
 San Antonio, Texas

RE: Management's Corrective Action Plan for Risk Management Liability Claims Management

Risk Management has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	VOS Access The Director of Risk Management should implement a process to manage access to VOS that includes granting, changing, delimiting, and monitoring access.	3	Accept	Matthew Nielsen, Claims Administrator	April, 2019
	Action plan: Valley Oaks System (VOS) is a leased Risk Management Claims Software used to house the City's liability and workers' compensation claims data. The Office of Risk Management, in partnership with Tristar Risk Management, implemented a formalized process for controlling access to VOS which limits authority to the Claims Administrator to initiate request for user additions or user role access changes to TriStar.				

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
2	Other Matters – Additional Recommendations We make the following recommendations to further strengthen the control environment for claims payments. a. Use of manual check pick-up should be limited and require management approval. Checks should be mailed to the payee directly from Finance. b. Strengthen controls surrounding the use of electronic signatures. c. Increase segregation of duties by requiring someone outside of the individual claim processing to provide final review and approval of payments. d. Develop controls to periodically review incidents at a claim aggregate limit amount in addition to an individual payment amount.	4	a. Accept b. Accept c. Accept d. Accept	Matthew Nielsen, Claims Administrator	a. February, 2019 b. April, 2019 c. June, 2019 d. October 1, 2019
	Action plan: a. The Office of Risk Management discontinued physical check pick-up February, 2019. City Attorney's Office provided written protocol including authorized persons and security measures for any checks issued out of Office of Risk Managements fund (Fund 75). b. The Claims Manager, as the initiating requestor and distributor, gathers all applicable voting responses and uploads these to the claim file as formal documentation of the approvers' final vote. c. June, 2019, the Office of Risk Management updated the non-PO approver and implemented a role outside of the claims division to review all non-PO requests originating from Fund 75. d. The Office of Risk Management is revising the Claims Best Practices manual to assigning the Claims Manager responsibility for reviewing non-litigated liability claims upon reaching the \$15,000 incurred threshold. Claims exceeding \$15,000 will require Claims Administrator's approval.				

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

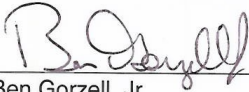
Sincerely,



Debra Ojo
Director
Office of Risk Management

9.9.19

Date



Ben Gorzell, Jr.
Chief Financial Officer
City Manager's Office

9/10/19

Date