OFFICE OF THE CITY AUDITOR

September 24, 2026

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SUBJECT: Audit Report of Office of Risk Management Workers Compensation Third Party Administrator

Mayor and Council Members:

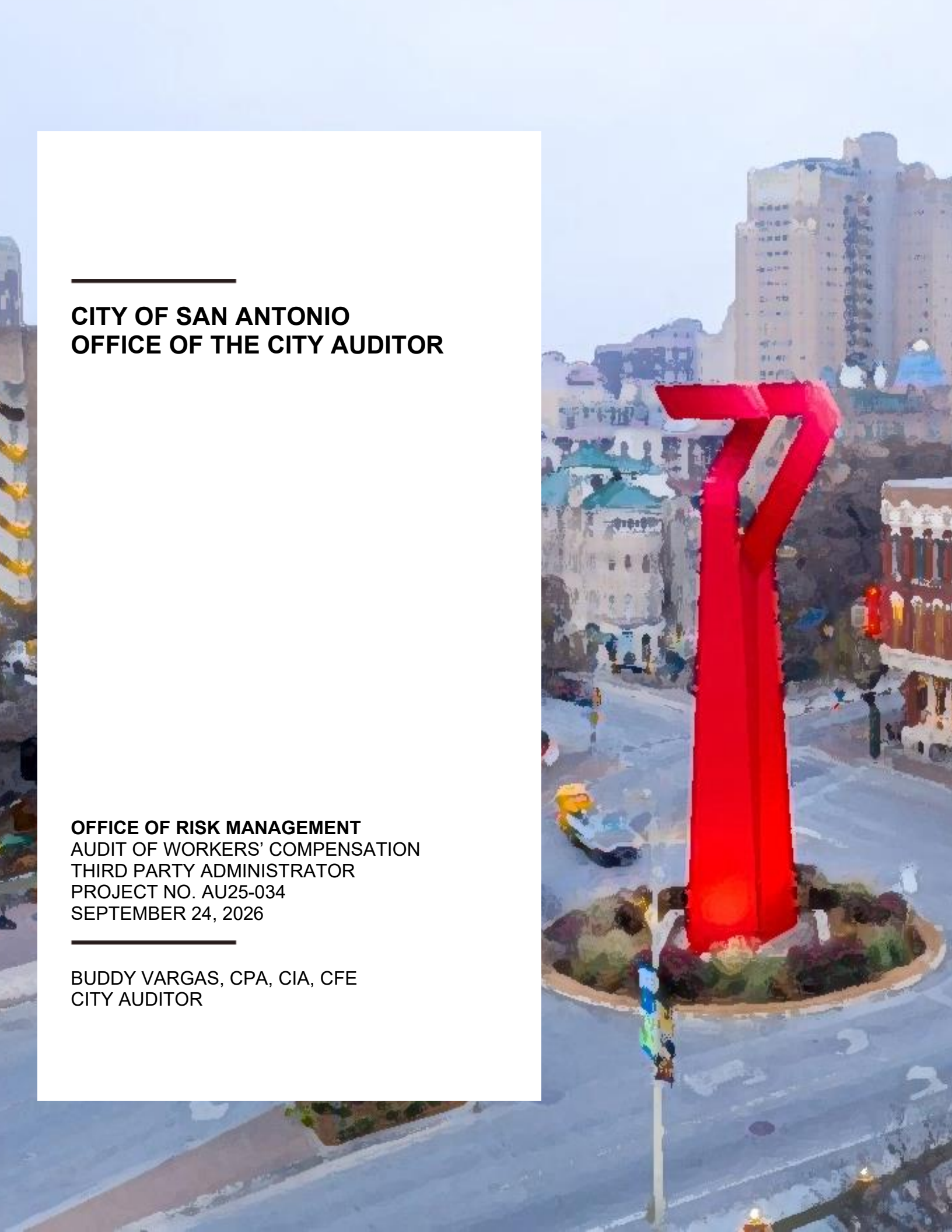
We are pleased to send you the final report of the Office of Risk Management Workers Compensation Third Party Administrator. This audit began in July 2025 and concluded with an exit meeting with department management in June 2026. Management's verbatim response is included in Appendix B of the report. The Office of Risk Management's 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,

Buddy Vargas, CPA, CIA, CFE
City Auditor
City of San Antonio

Distribution:
Erik Walsh, City Manager
Ben Gorzell, Chief of Financial and Administrative Services
Debra Ojo, Director, Office of Risk Management
Andrew Segovia, City Attorney
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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR

OFFICE OF RISK MANAGEMENT
AUDIT OF WORKERS' COMPENSATION
THIRD PARTY ADMINISTRATOR
PROJECT NO. AU25-034
SEPTEMBER 24, 2026

BUDDY VARGAS, CPA, CIA, CFE
CITY AUDITOR

Table of Contents

Executive Summary 2
Background 3
Audit Scope and Methodology 5
Audit Results and Recommendations 6
A. Contract Monitoring 6
B. Workers' Compensation Claims 7
C. Claim Data Accuracy 8
Appendix A – Staff Acknowledgment 9
Appendix B – Management Responses 10

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Office of Risk Management (ORM), specifically the Workers' Compensation Third Party Administrator contract. The audit objective, conclusions, and recommendations follow:

Determine if the Workers' Compensation Third Party Administrator contract is adequately managed and system data is accurate and reliable (after the recent system transition).

ORM has effective procedures in place to monitor claim expenditures and administrative fees paid to Sedgwick. Additionally, contract requirements were met for licensed examiners; proper staffing; and Personally Identifiable Information (PII) and Protected Health Information (PHI) data security controls. Daily claim expenditures and monthly administrative fees were accurate and properly supported. Sedgwick's examiners were properly licensed and met staffing requirements. Additionally, Sedgwick has appropriate controls over PII and PHI.

However, we identified areas where controls could be improved over contract monitoring, workers' compensation claims, and data accuracy. ORM does not have a Contract Administration Plan in place to use as a monitoring tool to ensure key contractual requirements are met. Furthermore, workers' compensation claims were not consistently processed timely, were miscategorized, and/or did not have appropriate documentation. Finally, ORM does not have control procedures in place to confirm the accuracy of employee claim data.

We provided recommendations to management to strengthen controls and resolve identified issues. The Office of Risk Management agreed with the audit findings and has developed positive action plans to address them. Management's verbatim response is in Appendix B on page 10.

Background

The Office of Risk Management's (ORM) Workers' Compensation Division supports injured employees by managing claims through a Third Party Administrator (TPA), coordinating modified work assignments, and ensuring compliance with the Texas Workers' Compensation Act. To help manage these claims, a contract was awarded to Sedgwick Claims Management Services, Inc. (Sedgwick), beginning October 2024. The contract is effective through September 30, 2027, with two additional one-year renewal options, at an estimated total cost of $8,803,000. Under this contract, Sedgwick is responsible for case management services, medical cost containment, pharmacy benefit management, and ensuring comprehensive oversight of the claims process. From October 2024 through August 2025, the City of San Antonio (City) received and sent 1,429 claims to Sedgwick and paid out $2,779,423 in total workers compensation claims.

When a city employee sustains an injury within the course and scope of employment, they must report the injury to their supervisor. Their supervisor must complete a Supervisor Report of Injury and provide the employee with a Texas Workers' Compensation Certified Health Care Network Form which outlines how to obtain medical treatment for the work-related injury. The employee's department uses these forms to file a claim through Sedgwick. Sedgwick receives the claim, and a Claims Adjuster is assigned to evaluate the claim. The adjuster will review relevant information and determine the appropriate claim type. The three claim types are as follows:

Incident Only - Claims reported that require no payment or activity other than generating a record in the claims administration system. Sedgwick is responsible for ensuring the record is saved in their system of record in the case the incident is elevated to medical only or indemnity.

Medical Only – Medical treatment is sought, but there is no time lost from work. Sedgwick is responsible for monitoring the claim and confirming the employee has been cleared to return to work without restrictions. Additionally, Sedgwick must determine within 15 days whether the claim should be elevated to an indemnity status.

Indemnity – Examples of indemnity claims include those for which:

- Payment is made, a reserve amount is estimated and posted, or there is time lost from work,
- Litigation is involved,
- Medical costs exceed $3,000,
- ORM requests an investigation or re-classification to indemnity status,
- Subrogation[1] is investigated or pursued, and/or
- The claim is open longer than 12 months.

To process claims and provide case management services, Sedgwick uses the JURIS and viaOne systems. JURIS is used for active, real-time case management. viaOne is used for read-only purposes to review claims.

[1] The legal right of an insurance company to pursue a third party that caused a loss to the insured (i.e., City of San Antonio), aiming to recover funds paid out on a claim.

Per the contract, Sedgwick is required to provide ORM with daily invoices for fees incurred for claims. Examples include fees for medical visits, bill reviews, and disability payments. In addition, ORM reimburses Sedgwick for administrative fees.

Contract monitoring is performed by ORM and its fiscal team. ORM is responsible for reviewing requirements such as certificates of insurance, confirming Sedgwick's personnel have the appropriate licenses, and monitoring the performance measures stated in the contract. The fiscal team is responsible for reviewing and verifying invoices received from Sedgwick.

Audit Scope and Methodology

The audit scope was August 2024 through February 2026. It included compliance with contract requirements; claims processing; invoice review; and data security controls.

To gain an understanding of department operations, we interviewed ORM personnel and performed walkthroughs over contract monitoring, workers' compensation claims processing, and invoice review. In addition, we interviewed Sedgwick regarding their workers' compensation and data security processes. The contract with Sedgwick and Administrative Directive 4.84 Workers' Compensation Program were our primary criteria for this audit.

As part of our testing procedures, we reviewed to:

- Determine if expenditures were accurate and properly supported.
- Determine whether claims were processed timely and payments were accurate.
- Verify whether Sedgwick appropriately reported subcontractor payments and certificates of insurance complied with contract terms.
- Verify whether Sedgwick met staffing requirements and examiners were properly licensed.
- Verify if Sedgwick policies and procedures addressed security over PII and PHI.
- Determine whether Sedgwick had proper security controls over system data, which included a review of their annual System and Organization Controls (SOC) 2[2] report.
- Verify user access was limited to appropriate personnel for the JURIS and viaOne systems.

We relied on computer-processed data in the viaOne system to confirm the accuracy of workers' compensation claims data. In addition, we reviewed data in SAP to validate expenditures paid to Sedgwick. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. 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.

[2] A SOC 2 report provides an independent evaluation of how a company handles customer data and verifies internal controls are securely designed and operating effectively.

Audit Results and Recommendations

ORM has effective procedures in place to monitor claim expenditures and administrative fees paid to Sedgwick. Additionally, contract requirements were met for licensed examiners; proper staffing; and Personally Identifiable Information (PHI) and Protected Health Information (PII) data security controls.

Claim expenditures were accurate and properly supported. We selected a judgmental sample of 25 daily invoices from FY 2025 for review. We selected a judgmental sample of 5 claims per daily invoice which included 278 claim expenditures valued at $252,918 for review. We determined all 278 claim expenditures were accurate and properly supported. We also verified ORM fiscal staff performed monthly reconciliations between the daily invoices and SAP for six months during FY 2025. Additionally, we reviewed 18 administrative fee invoices from FY 2025, valued at $1,887,258, and determined the administrative fees paid to Sedgwick were accurate, properly supported, and agreed to contract rates.

Sedgwick's examiners were properly licensed and met staffing requirements per the contract. We reviewed licenses for their six examiners as of November 2025 and confirmed all six had the Texas Workers' Compensation Adjuster's license. Additionally, we verified Sedgwick had the proper levels of staffing as of December 2025 to include an account executive, local account manager, workers' compensation supervisor, and claims staff as required by the contract.

Furthermore, Sedgwick has appropriate controls over PII and PHI security. We confirmed Sedgwick has sufficient policies and procedures that include controls over Electronic Protected Health Information (ePHI) at rest, in transit, and the handling of sensitive PII. Finally, we reviewed the SOC 2 report performed for Sedgwick for FY 2024, which concluded security controls were appropriately designed and operating effectively.

However, we identified areas where controls could be improved over contract monitoring, workers' compensation claims, and claim data accuracy.

A. Contract Monitoring

ORM does not have a Contract Administration Plan (CAP) in place that should be used as a monitoring tool to ensure key contractual requirements are met. Examples of key contractual requirements include, but are not limited to, timely claims processing, workers' compensation payments, insurance requirements, quarterly reporting, existence of a fraud program, and subrogation collections.

Furthermore, ORM did not confirm Sedgwick's compliance with contractual requirements such as subcontractor payment reporting, insurance coverage, daily system backups, or collection of subrogation claims.

ORM does not have monitoring procedures in place to ensure Sedgwick is reporting and making prompt payments to their subcontractors. We reviewed the City Contract Management System as of December 2025 and verified the system reported $0 in payments to Sedgwick's subcontractors. Therefore, we were unable to determine if Sedgwick was making prompt payments to their subcontractors. In addition, ORM did not request certificates of insurance from Sedgwick or its subcontractors to verify insurance coverage for FY 2025 was in accordance with contractual requirements.

ORM is not monitoring whether Sedgwick is performing daily backups for the data in the JURIS and viaOne systems. We requested supporting documentation to confirm the daily backup process; however, we did not receive supporting documentation confirming these backups were being performed as required.

Finally, ORM does not have monitoring procedures to ensure the City of San Antonio is collecting on subrogation[3] claims. Between January 2023 and March 2025 32 claims, totaling approximately $296,000, qualified for subrogation. Effective August 2025, subrogation collection efforts were initiated by Sedgwick as authorized by ORM. However, as of January 2026 monitoring controls did not exist for ORM to validate collection efforts and accuracy.

Per the Procurement Policy & Procedures Manual, managing departments should develop a CAP as a tool for administration and monitoring purposes. Furthermore, CAPs should highlight key provisions of the contract, the monitoring tasks to be performed, and the frequency of actions to be taken. Currently, ORM does not have effective monitoring procedures in place (i.e., a CAP) which may result in noncompliance with contractual requirements.

Recommendation:

ORM Director develop a CAP for key contractual requirements. Additionally, develop periodic monitoring procedures to ensure key contractual requirements are adequately monitored and performed by Sedgwick.

B. Workers' Compensation Claims

Workers' compensation claims were not consistently processed timely, were miscategorized, and/or did not have appropriate supporting documentation. We reviewed a random sample of 100 workers' compensation claims for the period October 2024 through May 2025 and identified various issues. Specifically, we reviewed 25 incident only claims, 25 medical only claims, and 50 indemnity claims.

We reviewed all three claim types and determined 8 of 100 claims were not processed timely. Per contract requirements, Sedgwick is required to process and assign claims within 24-hours of claim receipt from the City. Sedgwick processed the claims between 2 to 76 days after receiving them. In addition, we determined 10 of 100 claims were not categorized appropriately

[3] Subrogation is the legal right of an insurance carrier to recover money they paid to an injured worker from a negligent third party.

by claim type. For 9 indemnity claims, we determined workers' compensation benefits were not paid to the employee and therefore the claim should have been categorized as a medical only claim. We also determined there were no medical expenses related to one medical only claim and therefore should have been categorized as an incident only claim.

We also determined indemnity claims were not determined compensatory within 15 days. Specifically, 9 of 50 indemnity claims were not evaluated for a legitimate illness or injury claim within 15 days. Per contract requirements, Sedgwick must determine if a claim will be accepted or denied within 15 days of receipt. Finally, we determined 8 of 50 indemnity claims did not have appropriate documentation. These 8 indemnity claims were missing the *Notice of First Payment of Income Benefits* which is used to inform injured employees when their first temporary income benefit payment is initiated.

ORM does not monitor Sedgwick's claims processing on a consistent basis. As a result, workers' compensation claims were not processed timely, were miscategorized, or did not have appropriate supporting documentation. However, ORM does rely on results of a third-party audit performed on workers' compensation claims for FY 2025. Sedgwick was determined to be non-compliant for timely processing of claims and implemented an action plan to improve processing and meet the contractually required 24-hour processing timeline.

Recommendation:

ORM Director ensure policies and procedures include reference to a third-party audit and verify an audit is performed and action plans are implemented.

C. Claim Data Accuracy

ORM does not have procedures in place to confirm the accuracy of employee claim data. We reviewed the 1,429 claims created by Sedgwick in the viaOne system from October 2024 through August 2025 and compared them to the employee master file within SAP to confirm data accuracy. Of the 1,429 claims reviewed, we determined 79 (6%) had inaccuracies in viaOne for one or more of the following: employee's name, date of birth, and/or Social Security Number (SSN). However, beginning in May 2025, ORM was able to initiate the integration of viaOne with the Human Resources module in SAP that auto populates this information.

As a best practice, employee claim data should be reviewed for accuracy. Without control procedures in place, inaccurate data may be reported to the Center for Medicare and Medicaid Services.

Recommendation:

ORM Director develop control procedures to verify viaOne employee claim data is accurate. In addition, ensure the integration with viaOne is working as intended.

Appendix A – Staff Acknowledgment

Abigail Estevez, CPA, CIA, CISA, Audit Manager
Danny Zuniga, CPA, CIA, Auditor in Charge
Carlos Delgado, Auditor

Appendix B – Management Responses

OFFICE OF THE CITY AUDITOR

June 18, 2026

Buddy Vargas, CPA, CIA, CFE
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for Audit of Office of Risk Management Workers' Compensation Third Party Administrator

The Office of Risk Management has reviewed the audit report and has developed the Corrective Action Plan below corresponding to the report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
A	**Contract Monitoring** ORM develop a CAP for key contractual requirements. Additionally, develop periodic monitoring procedures to ensure key contractual requirements are adequately monitored and performed by Sedgwick.	6	Accept	Lisa Valdez Assistant to the Director	7/31/2026
	Action plan: ORM is currently working with Contract Compliance to develop a CAP for the WC TPA contract. ORM will implement quarterly audit reviews to review the contract to ensure all contractual requirements are being met and performed by the TPA.				
B	**Workers' Compensation Claims** ORM ensure policies and procedures include reference to third party audit and verify audit is performed and action plans are implemented.	7	Accept	Josue Sanchez Claims Administrator	09/30/2026

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	Action plan: ORM current process includes completing a third party audit each year, receiving an executive report of the audit results, enforcing penalties within 30 days as dictated in the contract (if applicable), and requesting an action plan from the third-party administrator (TPA) within 30 days of notice. Monitoring the action plan is based on the nature of the action. The process will be formalized by incorporating it into the COSA Client Service Instructions (CSI), which are reviewed and used by the TPA alongside contractual requirements. Once formalized, the process will be applied consistently across all audits, including Performance-Based Oversight (PBO) audits as well as internal and external audits.				
C	**Claim Data Accuracy** ORM develop control procedures to verify viaOne employee claim data is accurate. In addition, ensure the integration with viaOne is working as intended.	8	Accept	Josue Sanchez Claims Administrator	05/13/2025
	Action plan: ORM implemented an SAP-to-TPA data feed to automatically and electronically transmit selected HR data to the TPA, including full name, employee phone number, SAP number, and date of birth. The SAP to TPA data feed had not been established or developed by COSA ITSD at the onset of the contract or during the audit period. However, as of 05/13/2025, all employee claim data is sourced directly from SAP records, ensuring the accuracy and consistency of claim information.				

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

Sincerely,

Debra Ojo
Director
Office of Risk Management

8.31.2026
Date

Ben Gorzell
Chief of Financial and Administrative Services
City Manager's Office

9/11/2026
Date