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**Subrogation Recoveries/First-Party Claims Audit**

December 1, 2017



**City of Fort Worth  
Department of Internal Audit**

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Fort Worth, Texas 76102

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**The Subrogation Recoveries/First-Party Claims Audit was conducted as a part of the Department of Internal Audit's Fiscal Year 2017 Annual Audit Plan.**

### **Audit Objective**

The objective of this audit was to determine the effectiveness of the City's process for seeking cost recoveries from claims involving damaged City property.

### **Audit Scope**

Our audit included a review for the period October 1, 2014 through September 30, 2016.

### **Opportunities for Improvement**

Reassign collections to the Treasury Division of the Financial Management Services Department

Maximize monetary recoveries

Verify completeness of Crash Reports listings received by Risk Management

Accept credit/debit card payments

Establish written policies and procedures

Redistribute subrogation recoveries to City departments

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## **Executive Summary**

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As part of the Fiscal Year 2017 Annual Audit Plan, the Department of Internal Audit conducted an audit of the City's Subrogation Recoveries/First-Party Claims process.

The Risk Management Division of the Human Resources Department seeks reimbursement from third parties for losses from the repair or replacement of damaged City property. Based on our audit results, monies collected from third parties, by City of Fort Worth (CFW), were not always deposited into the CFW's bank account. Approximately \$1,200 in currency was not accounted for and approximately \$2,150 in checks were not deposited. Risk Management did not require a reconciliation of manual cash receipts to the Risk Management software (Origami) or to the general ledger, which resulted in non-detection.

We concluded that the CFW is not maximizing monetary recoveries related to damaged City property. Credit and debit cards are not accepted, non-collections are not escalated for further collection and information submitted to the Texas Department of Transportation (for collection assistance) is incomplete. Based on Internal Audit's calculation, the City's claims collection rate decreased by approximately 50% after the CFW resumed responsibility for subrogation recovery efforts in November 2015. An increase in subrogation recoveries was noted for FY2017.

The Fort Worth Police Department submits a listing of crash reports of possible City property damage to Risk Management on a weekly basis. However, the reports provided were incomplete and did not include all potential property damage.

Data input fields that were considered critical were entered inconsistently, and sometimes left blank. The Police report field in Origami is critical for reconciliations, but is not required. We also noted that within summary reports, the original claim amount field is netted by the total payments recorded. As a result, original claim amounts are not readily available.

Cost recoveries are not redistributed to the affected City departments. There are also no current written policies and procedures for the subrogation recoveries process.

These audit findings are discussed in further detail within the [Detailed Audit Findings](#) section of this report.

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## Background

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Subrogation is the right of an insurer (including self-insured entities) to pursue reimbursement from a third party responsible for causing a loss to the insured. The goals of risk management are to protect City resources and minimize the financial impact when losses occur. Risk Management, a division of the Human Resources Department is responsible for property and liability insurance and claims management, as well as coordinating loss identification, reduction, and prevention programs.

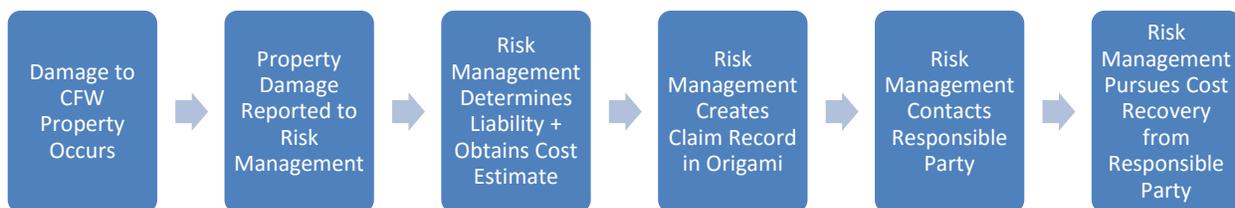
City property damages include, but are not limited to, street signs, light poles, fire hydrants, City vehicles, water/sewer lines, etc. Vehicular accidents result in many of the damages to City property, and are normally reported by the Fort Worth Police Department (FWPD). The FWPD utilizes an incident reporting system (ReportBeam) to document crash reports that the State requires to be filed. FWPD provides a listing of crash reports with potential City property damage to the Risk Management Division on a weekly basis. There are also cases when damages result from vehicular hit-and-runs, or are discovered by the department responsible for the damaged City property.

Additionally, a Tarrant County judge can place an individual on probation and require that they pay, on an installment basis, restitution for damages caused to City property. The Tarrant County Community Supervision and Corrections Department (TCCSCD) then sends a notice, to the City, which includes the third party's name and restitution amount. Risk Management then sets up a 'subrogation reserve' in the individual's claim record within Origami. Risk Management describes 'subrogation reserve' as the amount of monies outstanding and due on a collectible claim. This amount is based on the cost paid or estimated cost to repair damaged property, plus reasonable loss of use of that property.

The City of Fort Worth (CFW) outsourced subrogation recovery services to Gulf South Risk Services, Inc. (Gulf South) for a contract term of 10/01/2013 - 09/30/2016. The City paid 25% of financial recoveries achieved by Gulf South. Initially, the contract was designed to obtain services from Gulf South for claims that had previously been opened and worked by the City's Risk Analysts and subsequently closed without collections. However, on August 12, 2014, a contract amendment was executed to broaden the scope of services to encompass subrogation and claims recovery services for open cases and cases that had not previously been worked by City staff. In November 2015, the City executed their option to terminate the contract early. With the termination of this contract, the Risk Management Division brought the subrogation recovery efforts back in-house.

Risk Management uses the Origami risk management system to manage claims. Prior to FY2017, the STARS system was used to manage claims. However, STARS claims were imported into Origami for active/open claims and closed claims from the prior three years. The currently open active claims represent incidents from as far back as November 1998 and December 1999, with balances reported as \$3,750.00 and \$7,030.83, respectively.

### Subrogation Recovery Claim Initiation Process



Source: Risk Management interviews

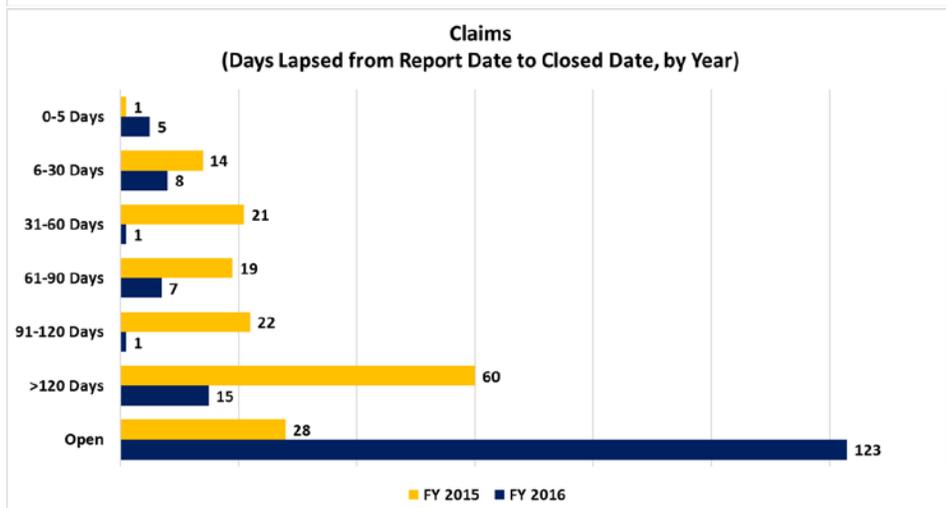
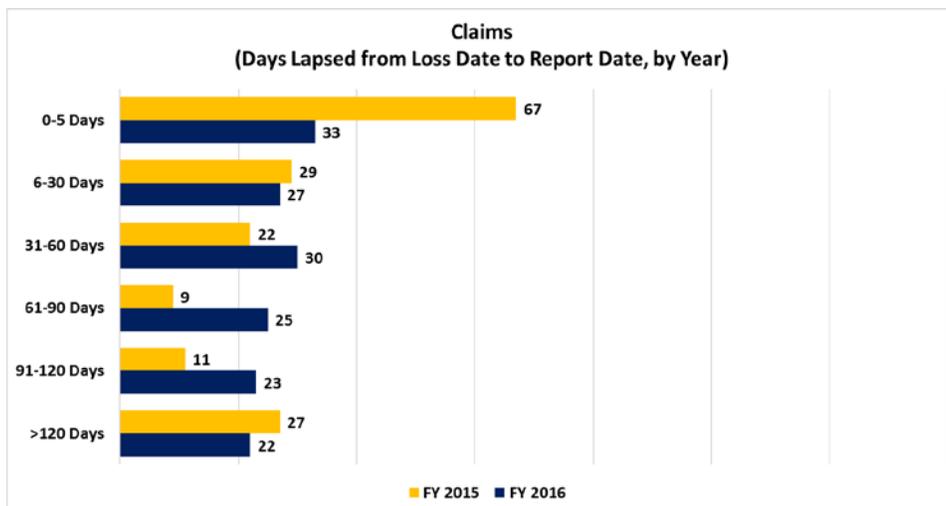


The following charts depict the number of days lapsed between Loss Date, Report Date and Close Date. Per Risk Management staff, claims remain open until either full payment is received or after at least three (3) unsuccessful attempts have been made to contact the responsible party. Risk Management indicated that management approval is obtained prior to closing a claim.



Source: Auditor-Generated

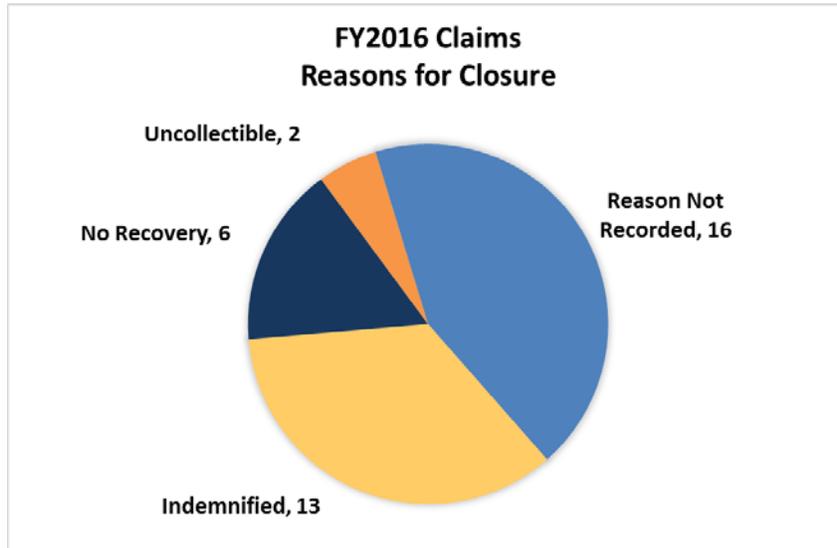
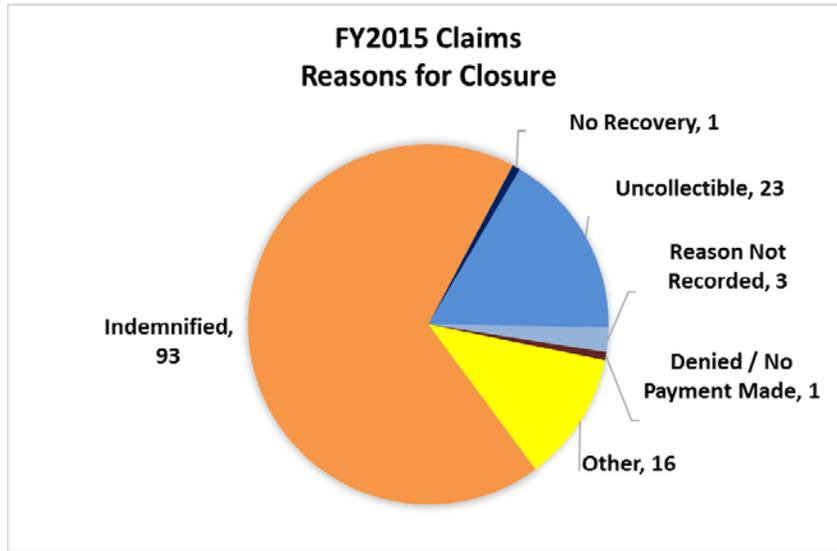
During FY2015, there were 165 claims in Origami and 160 in FY2016. Approximately 17% (28 of 165) of the claims made for City property damage in FY2015 remained open as of March 2017. However, in FY2016, 77% (123 of 160) of the claims remained open.



Source: Origami



The reason that the claims were closed are noted as follows:



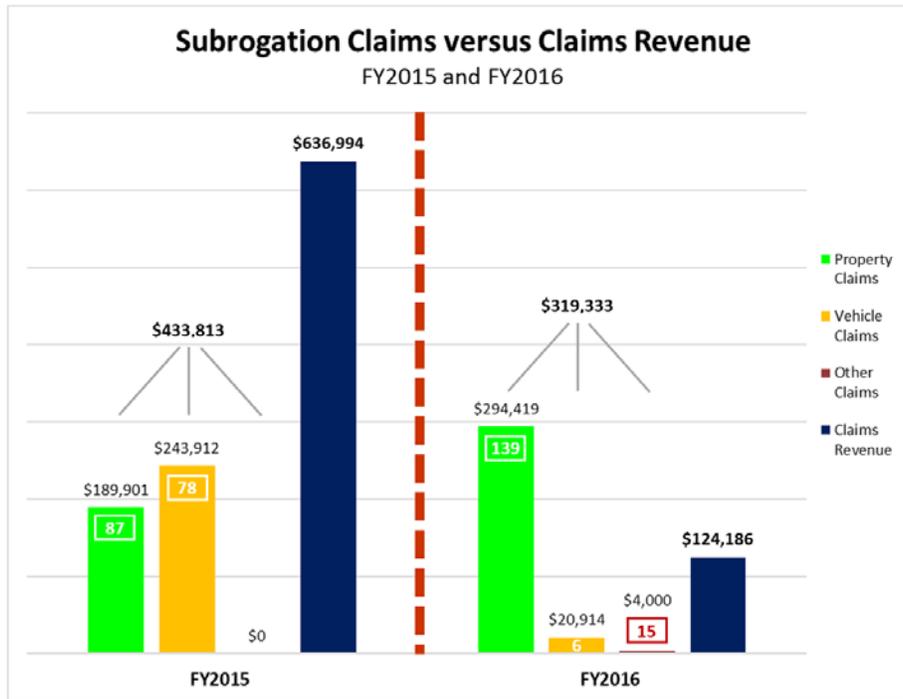
Source: Origami

Reason for Closure (Origami)	Definition
Indemnified	The claim was paid (for liability claims)
No Recovery	Risk attempted to collect, and determined they were unable to collect.
Uncollectible	Risk determined that they were unable to collect the money. (Reasons include unidentified claimant, lack of assets and employment, claimant in jail, etc.)
Denied/No Payment Made	The claim has been totally denied (for liability claims)
Other	Reason not adequately described in any other category. Includes: property not CFW, etc.

Source: Risk Management staff

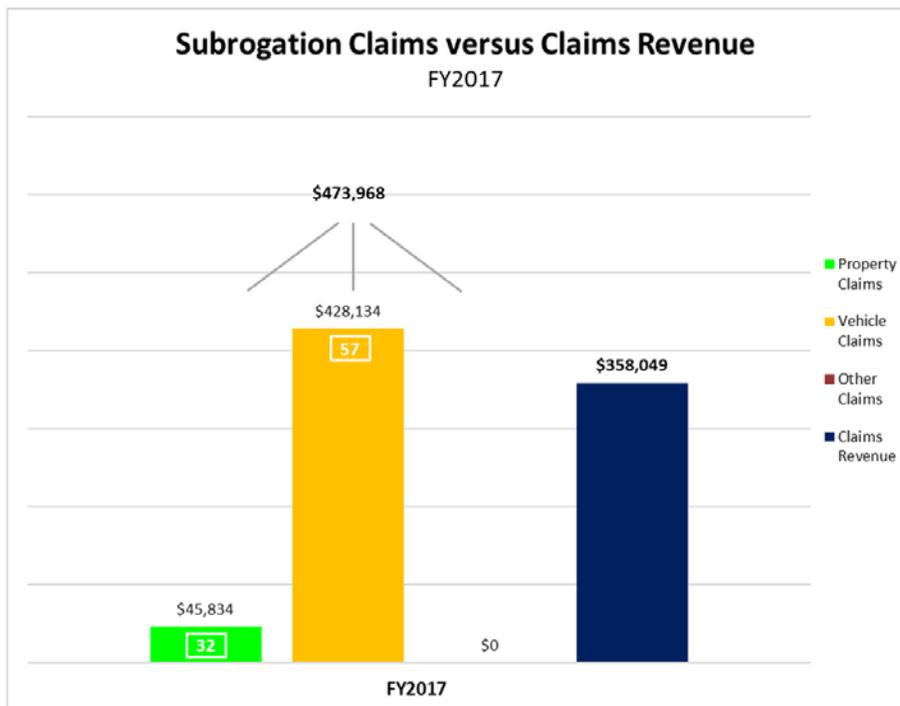


Based on loss date, the total number of property claims remained consistent between FY2015 and FY2016. However, the number of vehicle claims decreased significantly (from 78 to six).



Source: Origami and PeopleSoft (CFW General Ledger)

For comparative purposes, the following chart shows how the City’s subrogation collection efforts have improved since FY2016. Revenue depicted includes collections from prior year claims.



Source: Origami and PeopleSoft (CFW General Ledger)



## Objective

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The objective of this audit was to determine the effectiveness of the City's process for seeking cost recoveries from claims involving damaged City property.

## Scope

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Our audit covered the period from October 1, 2014 through September 30, 2016. Our audit was limited to City property damage, and did not include a review of worker's compensation claims.

## Methodology

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To achieve the audit objective, the Department of Internal Audit performed the following:

- interviewed key personnel in the Risk Management Division of the Human Resources Department;
- interviewed key personnel in the Police, Transportation and Public Works, and Water Departments;
- reviewed data within Origami, the City's Risk Management software;
- reviewed FWPD crash reports with potential City property damage;
- compared payments recorded in Origami to Risk Management's cash-receipting file and the general ledger; and,
- evaluated internal controls related to subrogation of claims.

We conducted this 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

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During our audit, Risk Management communicated a desire to work with user departments. Based on discussions with Risk Management staff, efforts have been made to strengthen the subrogation recovery process. For example, the Risk Management Division shared plans to meet with City departments twice per year to discuss first party claims in six-month period increments. Risk Management also publishes (within the employee newsletter) their availability to provide training on how departments are to report damages. Risk Management indicated that as of February 2017, the twice per year meetings had not begun. However, seven training sessions had been completed and five more were scheduled.

Based on our audit results, the CFW's FY2017 property subrogation revenue has increased from FY2016. However, we did identify opportunities for improvement.

- Accountability could not be established for \$1,198.39 in currency that was recorded on manual cash receipts and/or in Origami or \$2,150.04 in checks from FY2015 through FY2017.
- The Risk Management Division relies on police crash reports as the main source of information for damages to City property. However, testing revealed that weekly listings provided to Risk Management did not include all police crash reports with possible property damage.
- Currently, subrogation payments must be made via check/money order or cash. Credit and debit card payments are not accepted.
- Collection efforts cease after the Risk Management Division has attempted collections beyond 120 days. After 120 days have lapsed, claims are closed without further action. The Risk Management Division only escalates claims to the City Attorney's Office when the subrogation claim amount exceeds the responsible party's insurance coverage limits.
- Subrogation recoveries are not redistributed to user departments.
- Fields within Origami, that are critical for reconciliation of claims and payments received, are not consistently entered and are sometimes left blank.
- The City's subrogation recoveries collection rate decreased by approximately 50% from FY2015 to FY2016. In FY2015, when the CFW contracted with Gulf South, the subrogation collection rate (excluding workers compensation subrogation) was 67.05%. In FY2016, the collection rate decreased to 13.15%. It should be noted that subsequent to terminating the contract with Gulf South, the CFW made minimal efforts to collect from December 2015 to April 2016.
- Internal Audit identified instances where the same person received payments, recorded the payments into the departmental database, and then processed the deposit. Internal Audit also identified instances when payments were recorded in Origami and the general ledger, but not in Risk Management's Access file.
- No current, written policies and procedures (governing the subrogation recoveries process) were available. In April 2011, an independent consultant developed and provided the CFW with recommendations for policies and procedures. However, the recommendations were not incorporated by the end of audit fieldwork.

Risk Management staff indicated that the City has the legal right to charge a "loss of use of vehicle", which is a fee to pay for the loss of that vehicle while it is being repaired. Risk Management staff noticed that this fee had not been charged in the past, including when the contract was outsourced to Gulf South. However, since December 2016, staff reported consistently applying that fee where applicable and allowed.



## Overall Evaluation

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High	Medium	Low
<a href="#"><u>Cash collected but not deposited and not accounted for</u></a>		
<a href="#"><u>Inconsistent and/or incomplete information in the claims file</u></a>		
<a href="#"><u>Collection efforts not maximized</u></a>		
<a href="#"><u>Decreased _____ subrogation recoveries collection rate</u></a>		
<a href="#"><u>Incomplete FWPD crash reports</u></a>		
	<a href="#"><u>Incomplete entries within the Risk Management software</u></a>	
	<a href="#"><u>Cost recoveries not redistributed to the affected City departments.</u></a>	
	<a href="#"><u>No updated written policies and procedures</u></a>	



## Detailed Audit Findings

1. **\$1,198.39 was recorded as being received by the CFW in cash and \$2,150.04 in checks. However, the revenue could not be traced to the City's deposit records or the general ledger.**

From our review of manual cash receipts and the Origami software, \$3,348.43 noted as being received from or on behalf of persons who had damaged City property, could not be traced to the CFW's deposit records.

- The Department of Internal Audit could not account for cash received for the period October 1, 2014 through October 15, 2017. The cash totaled \$1,198.39.
- For the period October 1, 2015 through October 15, 2017, we identified two checks (totaling \$2,150.04) that were noted as being received by the CFW on August 2, 2017 and August 9, 2017. However, the checks had not been deposited by the CFW, could not be located, and had not cleared the third parties' bank accounts as of October 18, 2017. During our audit, Risk Management was made aware of the outstanding checks. Risk Management then requested check reissuances from the third parties.

The City's Financial Directive (FD06), which was applicable during the audit period, required that cash receipt transactions be recorded and reconciled to the bank deposit. The Directive further stated that cash and cash equivalents must be deposited within 24 hours of receipt, and that discrepancies between deposited amounts (when compared to written receipts, cash register, or system-generated receipts) must be recorded along with documentation of the responsible cashier. A Revenue Receipting Policy was adopted on August 15, 2017 to replace FD06. Both policies emphasize the need to reconcile recorded cash receipt transactions to the bank deposit.

During our audit period, money collected by Risk Management was not reconciled to Origami or to the City's bank account or general ledger. As a result, management did not detect that any money was unaccounted for. Furthermore, since all money collected cannot be accounted for, the total outstanding claim amount due from third parties cannot be verified.

**Recommendation 1A:** *The Human Resources Director, in conjunction with the Chief Financial Officer, should coordinate the discontinuance of Risk Management collecting money and should require that the cash receipting function reside within the Financial Management Services Department, with adequate internal controls.*

**Auditee's Response:** Concur. The Departments of Financial Management Services and Human Resources have already begun discussions on transitioning the cash receipting function for all risk payments to the Financial Management Services Department. With the current implementation of the AR/Billing/Point of Sale system on-going, Risk Management will be prioritized among the next four functions to be moved onto this new platform.

**Target Implementation Date:** March 1, 2018

**Responsibility:** John Samford, Assistant Director of Finance and Mark Barta, Risk Manager

**Recommendation 1B:** *The Human Resources Director, in conjunction with the Chief Financial Officer, should consider incorporating Risk Management recoveries within the PeopleSoft receivable and billing system that is in the process of being implemented throughout the City.*



**Auditee's Response:** Concur. In conjunction with the transitioning of payment receipting functions from Risk Management to Financial Management Services, both departments will coordinate on recovery efforts and outline a process which is consistent with the City obtaining the greatest amount of revenue based upon the cost to collect.

**Target Implementation Date:** March 1, 2018

**Responsibility:** John Samford, Assistant Director of Finance and Mark Barta, Risk Manager

**Recommendation 1C:** *The Human Resources Director, in conjunction with the Chief Financial Officer, should ensure that the collection and claim settlement processes are coordinated, so that cash receipts collected by FMS are recorded within Origami.*

**Auditee's Response:** Concur. In conjunction with the transitioning of payment receipt functions from Risk Management to Financial Management Services, both departments will coordinate the associated processes necessary to be sure payments are accurately reflected and recorded in Origami.

**Target Implementation Date:** March 1, 2018

**Responsibility:** John Samford, Assistant Director of Finance and Mark Barta, Risk Manager

**Recommendation 1D:** *The Human Resources Director should ensure that subrogation payments received and documented by the Financial Management Services Department are reconciled to Origami and to the general ledger.*

**Auditee's Response:** Concur. Once the collection system is in place, Risk Management will finalize the process for receiving and reconciling the accounts receivable data to Origami and then to the General Ledger.

**Target Implementation Date:** March 31, 2018

**Responsibility:** Mark Barta, Risk Manager

**Recommendation 1E:** *The Human Resources Director, in conjunction with the City Attorney, should determine the proper disposition of outstanding claims in which no determination can be made as to how much money was actually collected by the City/how much is actually outstanding.*

**Auditee's Response:** Concur. Human Resources has consulted with the City Attorney's Office on the proper disposition of the outstanding claims for which determination has not been made at the time of the audit. It has been determined with consultation from the City Auditor and City Attorney's Office that the amounts should be written-off because balances cannot be confirmed.

**Target Implementation Date:** Completed

**Responsibility:** Mark Barta, Risk Manager

**2. Information is sometimes not properly input within Risk Management's cash receipting file.**

When subrogation payments are received by the Risk Management Division, a Risk Management staff member is to process those payments and log the payments into Risk Management's cash receipting file.



Payments received are then to be delivered to another Risk Management staff member for deposit and eRDD preparation.

During Internal Audit's comparison of data within Origami to Risk Management's cash-receipting file, we noted that some Origami entries (seven during the Gulf South Period and 15 during the in-house Period) were not included in the cash receipting file. The Department of Internal Audit was unable to determine whether the discrepancies were intentional or whether some resulted from the inadvertent failure to record payments. It should be noted that if the payment was received and processed by the employee who is also responsible for deposit preparation, an inadequate segregation of duties exists.

In reviewing Risk Management's cash receipting, the Department of Internal Audit also noted that information recorded for each payment was inconsistent. For example, the memo field sometimes included a claim number, a name, and/or at other times, was left blank. Additionally, the cash receipting file includes a field labeled 'For' which recorded the claimant's name and in some instances, the claim number. We also noted that the eRDD number was not always recorded in the cash-receipting file.

Section XII.V.B. of the City's Financial Management Policy Statements indicates that job duties will be adequately separated to reduce, to an acceptable level, the opportunities for any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of assigned duties. Also, Section XII.V.C. indicates that procedures shall be developed and maintained that will ensure financial transactions and events are properly recorded, and that all financial reports may be relied upon as accurate, complete and up-to-date.

The lack of complete and consistent information within Risk Management's cash-receipting file makes it difficult to reconcile the payments and ensure proper accountability.

**Recommendation 2A:** *The Human Resources Director should require that payments are consistently and completely recorded in Origami.*

**Auditee's Response:** Concur. All payments are now being recorded in Origami.

**Target Implementation Date:** Completed

**Responsibility:** Mark Barta, Risk Manager

**Recommendation 2B:** *The Human Resources Director should require that a field be consistently added to the claim payment record to indicate the eRDD number/deposit record identifier to facilitate reconciliation.*

**Auditee's Response:** Concur. Risk Management will work with Financial Management Services to determine the appropriate tracking process.

**Target Implementation Date:** April 1, 2018

**Responsibility:** Mark Barta, Risk Manager and John Samford, Assistant Director of Finance

### **3. Cost recoveries related to property damages are not being maximized.**

The City's Risk Management Division utilizes internal and external sources to collect against persons who have damaged City property.



Restitution payments are received directly from the TCCSCD for court-ordered payments, without any additional City effort. However, the Department of Internal Audit identified opportunities to improve collection assistance obtained from other external parties and within the City's internal revenue collection process.

- Risk Management makes three to four attempts, by mail, to contact the claimant and/or the insurance carrier if applicable. If no contact is made after four attempts (120 days), the claim is closed with no further action. The Risk Management Division only seeks legal assistance from the City Attorney's Office when the subrogation claim amounts exceed the responsible party's insurance coverage limits.

Based on internal audit inquiries with other municipalities within the State of Texas, cities deploy different practices related to escalating subrogation claims. For example, the cities of Dallas and Austin have established thresholds in which claims are escalated to their legal department. Also, the City of San Antonio's written process allows escalation when the responsible party has insurance coverage.

- The Risk Management Division indicated that it sometimes reaches out to the Texas Department of Public Safety (DPS) for collections assistance. For example, DPS offers municipalities an option to place a hold on a claimant's driver license renewal until the City is paid. The Risk Management Division indicated that they have no results from these attempts.

Internal Audit noted that DPS requires a crash report, certified copy of the judgment, notice of unsatisfied judgement and transcript of civil proceedings or certificate of no appeal to accompany the City's requests. However, based on documentation observed during the audit, the CFW only forwarded a copy of the crash report. We saw no evidence that judgements or other required documents were included in CFW requests to DPS, which would provide some explanation as to why the CFW had no results with its attempts.

- Risk Management does not accept credit/debit cards for subrogation payments. Instead, accepted payment methods are limited to cash, checks and/or money orders. Risk Management staff indicated that claimants are sometimes not able or willing to come in to the office to make a payment and would prefer the convenience of credit/debit card payments. It should be noted that payments from insurance carriers were usually in the form of checks that were mailed to the City.

Section I.V.G. of the Financial Management Policy Statements indicates that the City shall maintain high collection rates for all revenues by keeping the revenue system as simple as possible in order to facilitate payment. The policy statement also states that since revenue should exceed the cost of producing it, the City shall strive to control and reduce administrative costs. The policy also states that the City shall pursue to the full extent allowed by state law all delinquent taxpayers and others overdue in payments to the City.

The Government Finance Officers Association's (GFOA) Best Practices states that the acceptance of credit and debit cards, as a payment method, has become virtually universal within the private sector, and more common within the public sector. GFOA further states that while governments may have to absorb extra costs or citizens may have to pay an additional convenience fee for the transaction, establishing a payment card system may be an attractive addition to a government's collection office, as long as it is executed properly. GFOA recommends that governments evaluate whether accepting payment cards as a payment option is reasonable and appropriate for the type of charges or fees being paid, and the level of customer service desired.

Without a subrogation claim escalation process and by not providing all information that is required by DPS, revenues are not being maximized. As a result, the City is forgoing the recovery of expenditures incurred by and reimbursable to the City. While the Department of Internal Audit was unable to determine why debit and credit card payments are not accepted, the City's non-acceptance of debit/credit card



payments results in a less efficient process, as well as lowers revenue collection potential. Section XIII of the City's Financial Management Policy Statements states that the City's goal is to utilize available technologies to expedite cash payments and receipts, enhance employee productivity, and provide customer satisfaction.

**Recommendation 3A:** *The Chief Financial Officer should require the acceptance of debit and credit card payments for collection against subrogation claims.*

**Auditee's Response:** Concur. The City's new point of sale system will provide all customers with the ability to pay using a pin based debit or credit card for amounts owed to the City. This functionality will be incorporated into the transition of payments being received by the Financial Management Services Department.

**Target Implementation Date:** March 1, 2018

**Responsibility:** John Samford, Assistant Director of Finance

**Recommendation 3B:** *The Human Resources Director, in conjunction with the City Attorney's Office and the Chief Financial Officer, should consider the benefits of escalating subrogation claim collections and the use of the City's delinquent accounts collection vendor.*

**Auditee's Response:** Concur. The Directors of all three departments will meet to review the benefits of utilizing the City's current collection vendor to perform subrogation claim collection processes.

**Target Implementation Date:** May 1, 2018

**Responsibility:** Sarah Fullenwider, City Attorney; Brian Dickerson, Human Resources Director and Aaron J. Bovos, Chief Financial Officer

**4. The City's subrogation recoveries collection rate decreased substantially (by approximately 50%) since terminating the third party contract.**

The subrogation recoveries collection rate decreased by approximately 50% from the time Gulf South was contracted to subrogate on behalf of the CFW, to the first year in which the CFW assumed subrogation efforts. Risk Management indicated that Gulf South's contract was terminated in November 2015, at which time, subrogation was brought back in-house. In comparison to Gulf South's collection rate, the City's collection rate, over a one-year period, decreased by approximately 50%. One potential reason for the decreased collection rate could be staffing changes that contributed to a delay in Risk Management collection efforts upon terminating its contract with Gulf South in November 2015.

In order to have a comparable period to analyze collection rate changes, Internal Audit selected a one-year period during Gulf South's contract with the City and a one-year period subsequent to the termination of the contract with Gulf South. Internal Audit then compared subrogation claims during a one-year period to the payments received for those claims during the same period. The results were as follows



**Comparison of Claims Payments During a Twelve-Month Period**

<b>12-Month Test Twelve-Month Period</b>	<b>Original Claim Amount (Calculated) [A]</b>	<b>Total Cost Recoveries Recorded in Origami [B]</b>	<b>Calculated Collection Rate [B]/[A]</b>
Gulf South	\$433,813	\$290,869*	67 %
In-House	\$338,914	\$44,577	13 %

Source: Origami.

\*Includes 25% collection fee paid to Gulf South

NOTE: Since the CFW did not take over subrogation until the contract was canceled (in November 2015), the in-house collection period did not include a full fiscal year. We, therefore, used different 12-month periods for comparison.

Per Section I.V.G. of the CFW’s Financial Management Policy Statements states that the City shall maintain high collection rates for all revenues by keeping the revenue system as simple as possible in order to facilitate payment. In addition, the policy states that since revenue should exceed the cost of producing it, the City should strive to control and reduce administrative costs, and should pursue to the full extent allowed by state law, all delinquent taxpayers and others overdue in payments to the City.

**Recommendation 4A:** *The Human Resources Director should ensure that delays in collection efforts are minimized moving forward, whether the function remains in-house or is contracted out.*

**Auditee’s Response:** Concur. Additional staff is being assigned to the recovery/subrogation function. Measures will be in place to assess that collection efforts are initiated within three business days from receipt of a notice of claim

**Target Implementation Date:** January 31, 2018

**Responsibility:** Mark Barta, Risk Manager

**Recommendation 4B:** *The Human Resources Director should consider a routine evaluation of the effectiveness of in-house collections versus outsourcing the collection function.*

**Auditee’s Response:** Concur. A plan is in place to add resources to the in-house collections effort in order to determine/assess the cost/value of performing this function over outsourcing.

**Target Implementation Date:** October 31, 2018

**Responsibility:** Mark Barta, Risk Manager

**5. Weekly listings, provided to Risk Management by FWPD, did not include all relevant FWPD Crash Reports.**

The FWPD submits “Accident Reports for Risk Management Review”, referred to as ‘Monday Reports,’ to the Risk Management Division each week. However, Internal Audit’s query of the period 10/01/2014 - 09/30/2016 revealed instances where relevant police crash reports were not included in listings sent to Risk Management.



- During the week of 05/23/2016 – 05/30/2016, there were 66 police crash reports meeting the required selection criteria listed in FWPD’s incident reporting (ReportBeam) system. However, only 35 (53.0 %) of those reports were listed on the report that was sent to Risk Management.
- During the week of 02/01/2016 – 02/08/2016, there were 63 police crash reports meeting the required selection criteria. However, only 30 (47.6 %) of those reports were reported to Risk Management.

Risk Management relies heavily on ‘Monday Reports’ as a source of information to determine if City property damages occurred, and to seek subrogation recoveries from the individuals at fault. Without a comprehensive list of police crash reports, the CFW does not maximize its revenue potential. As a result, there is potential revenue that is not being analyzed and collected. Also, delays in reporting claims to Risk Management could make them more difficult to collect, even though there is no statute of limitation for damages to City property by third parties. FWPD indicated that there was an issue with the ReportBeam report query, which was corrected on August 11, 2017.

During our audit, we developed a query of information from FWPD’s ReportBeam software to identify the number of police reports that listed only CFW property damage with responsible party insurance information. When comparing police reports to claims in Origami, Internal Audit identified approximately 776 FWPD police reports (with responsible party insurance information) that were not in Origami. Since the omission of information within Origami could have resulted from Risk Management not receiving information from FWPD or Risk Management’s oversight, the Department of Internal Audit tested the sample. Based on our results, multiple reports were not included in the ‘Monday Reports’, resulting in all or some of these 776 not being entered into Origami. As a result, the City was not processing claims for potential reimbursement of funds.

Section I.V.G. of the CFW’s Financial Management Policy Statements states that the City shall maintain high collection rates for all revenues by keeping the revenue system as simple as possible in order to facilitate payment. The policy also states that since revenue should exceed the cost of producing such revenue, the City should strive to control and reduce administrative costs, and should pursue to the full extent allowed by state law, all delinquent taxpayers and others overdue in payments to the City.

**Recommendation 5A:** *The Human Resources Director should require that Risk Management staff run queries, within ReportBeam, to help validate ‘Monday Reports’ and thus help ensure that a comprehensive list of crash reports is being provided.*

**Auditee’s Response:** Concur. The audit revealed that not all incident reports are being put into the Origami system by departments. The reporting of all property damage into Origami has not been required by departments. Additional training for responsible department personnel will be initiated to report all property damage and reporting will be developed to determine efficiency and effectiveness in order to ensure that all property damage is reported completely and timely. Department Directors will be provide feedback on the performance of their personnel. Risk Management staff will run queries, within ReportBeam, to validate the accuracy of the ‘Monday Reports’ as well as compare them to the 106 [incident] Reporting.

**Target Implementation Date:** April 1, 2018

**Responsibility:** Mark Barta, Risk Manager



**Recommendation 5B:** *The Human Resources Director should ensure that the list of 776 police reports, not in Origami, is reviewed and collection efforts are initiated as deemed appropriate.*

**Auditee's Response:** Concur. Risk Management will reconcile the 776 police reports not in Origami and collection efforts will be initiated on those determined to be appropriate.

**Target Implementation Date:** April 1, 2018

**Responsibility:** Mark Barta, Risk Manager

**6. Fields in Origami, which are critical for reconciliation, are not required and/or inconsistently entered.**

Subrogation claim records, in Origami, have a field for the police report number and the responsible adjuster's name. However, neither are configured as required fields and are sometimes left blank. Since a police report number is required to verify that property damage claims from ReportBeam were entered in Origami, the police report number is critical. Without this piece of data, the alternative is to search claims by address/name. The assigned adjuster field is needed to document responsibility for managing claims.

Staff indicated that the 'subrogation reserves' field in Origami is used to record the cost of repairs as reported by the department that incurred the loss. Since Risk Management might negotiate with the responsible party and/or their insurance carrier to reduce the amount due, 'subrogation reserves' amounts may be changed during the subrogation recovery process. Per staff, Risk Management usually updates the amount in the reserves, based on these negotiations/arrangements.

Furthermore, within summary reports, the 'subrogation reserves' field is reduced when payments are made. The 'subrogation reserves' amount therefore reflects the outstanding balance as opposed to retaining the original claim amount. As a result, original claim amounts are not readily available without opening each individual claim. The reserves field is eventually 'zeroed out' if the claim gets paid in full.

Analysis of claims revealed that the majority of claims in Origami are assigned to the 'Subrogation Adjuster' or the field is blank (i.e., not assigned to a user). As a result, accountability for processing a majority of the claims may not be established.

- In FY2015 78% of the 223 claims incurred were not assigned; 17% were assigned to 'Subrogation Adjuster'; and the remaining 5% were assigned to individual/specific adjusters.
- In FY2016, 83% of the 150 claims incurred were assigned to 'Subrogation Adjuster' while the remaining 17% were assigned to individual/specific adjusters.
- In FY2017, 93% of the 126 claims incurred were assigned to 'Subrogation Adjuster.' The remaining 7% were assigned to individual/specific adjusters.

Additionally, Origami reports do not display a field that indicates whether the claim has been placed on a payment plan. Instead, a user would be required to open the claim record and find out, from the notes, whether a payment plan is in place. During the audit, we requested information about the number of payment plans. However, Risk Management personnel could not provide the requested information. General business practice would dictate that information needed to help ensure accountability be required.



**Recommendation 6A:** *The Human Resource Director, in conjunction with the Chief Technology Officer, should ensure that the 'Police Report' and assigned adjuster fields, within Origami, are required.*

**Auditee's Response:** Concur. Both referenced fields already exist in Origami. Risk Management staff will complete the information retrospectively for past claims that are still open and prospectively for all claims going forward.

**Target Implementation Date:** February 1, 2018

**Responsibility:** Mark Barta, Risk Manager

**Recommendation 6B:** *The Human Resource Director, in conjunction with the Chief Technology Officer, should ensure that the original claim amount field (within Origami) be configured to display the damage estimate provided by the appropriate department.*

**Auditee's Response:** Concur. The referenced field exists in Origami and is displayed. In the past the field was changed to reflect actual collected amount, this will be changed in order to provide original estimated information. No action is needed by Information Technology.

**Target Implementation Date:** December 31, 2017

**Responsibility:** Mark Barta, Risk Manager

**Recommendation 6C:** *The Human Resource Director should require that claims in Origami be assigned to an individual licensed adjuster.*

**Auditee's Response:** Concur. As a part of additional resources being assigned to the subrogation function, all claims will be assigned to a licensed adjuster.

**Target Implementation Date:** February 1, 2018

**Responsibility:** Mark Barta, Risk Manager

## **7. Subrogation Recoveries are not consistently redistributed to the affected City departments.**

In FY2011, FY2012 and FY2013, cost recoveries were transferred from the Risk Management Fund to various funds for departments that sustained the losses. However, subsequent to FY2013, claims/costs that were recovered on behalf of departments were no longer redistributed to multiple departments that incurred losses.

Internal Audit concluded that redistributing subrogation recoveries to the affected City departments could be an effective process to encourage/incentivize departments to promptly and efficiently report City property damage, including damage caused by third parties. Such action could, in turn, help Risk Management contact third parties for potential recoveries in a timely manner.

Section I.V.G of the City's Financial Policy Statements states that the City shall maintain high collection rates for all revenues by keeping the revenue system as simple as possible in order to facilitate payment. The policy statement also mentions that since revenue should exceed the cost of producing such revenue, the City should strive to control and reduce administrative costs, and should pursue to the full extent allowed by state law, all delinquent taxpayers and others overdue in payments to the City.



**Recommendation 7:** *The Deputy City Manager over the Human Resources Department and the Budget and Performance Department should reconsider the effectiveness of redistributing subrogation recoveries to affected City departments.*

**Auditee's Response:** Do Not Concur. In consultation with the Chief Financial Officer it was determined that the effort to redistribute the recoveries is too cumbersome and ineffective. This revenue is used to offset the expenses of operating the Risk Management Fund with the revenue being budgeted into the fund which has the indirect effect of disturbing the revenues back to the departments, as departments are charged for the Risk Management Fund.

**Target Implementation Date:** N/A

**Responsibility:** N/A

**8. There are no written policies and procedures related to subrogation claims processing.**

There were no current written policies and procedures governing the subrogation recoveries process. Risk Management staff indicated that the City hired an independent consultant to develop standard operating procedures (SOPs). Although Internal Audit was informed that several consultant recommendations were discussed, SOPs had not been updated to reflect the recommendations and/or current practice.

Specific processes for which Internal Audit did not see written policies and procedures included closing claims when appropriate, and a formal reconciliation of subrogation payments. During our audit, we identified 41 of 137, and 8 of 37 claims (incurred in FY2015 and FY2016, respectively) that were in a closed status as of October 2017 with zero collections. Current policies do not state whether or under what condition(s) claims can be reopened.

GFOA Best Practices indicate that every government should document its accounting policies and procedures. GFOA further states that the lack of an updated written procedural manual leads to inconsistent and inefficient operations, and could result in frustration within and outside the organization, as well as the loss of potential revenue. Additionally, the lack of standard processes could lead to the possibility that subrogation recovery actions may appear to be arbitrary and unfair to certain claimants.

**Recommendation 8:** *The Human Resources Director should require that the written policies and procedures manual be updated, shared with pertinent staff and enforced.*

**Auditee's Response:** Concur. The written policy and procedures manual will be updated with training to ensure that staff understand their responsibilities. Monitoring will be put in place to ensure that staff is following the policy and procedures.

**Target Implementation Date:** April 1, 2018

**Responsibility:** Mark Barta, Risk Manager



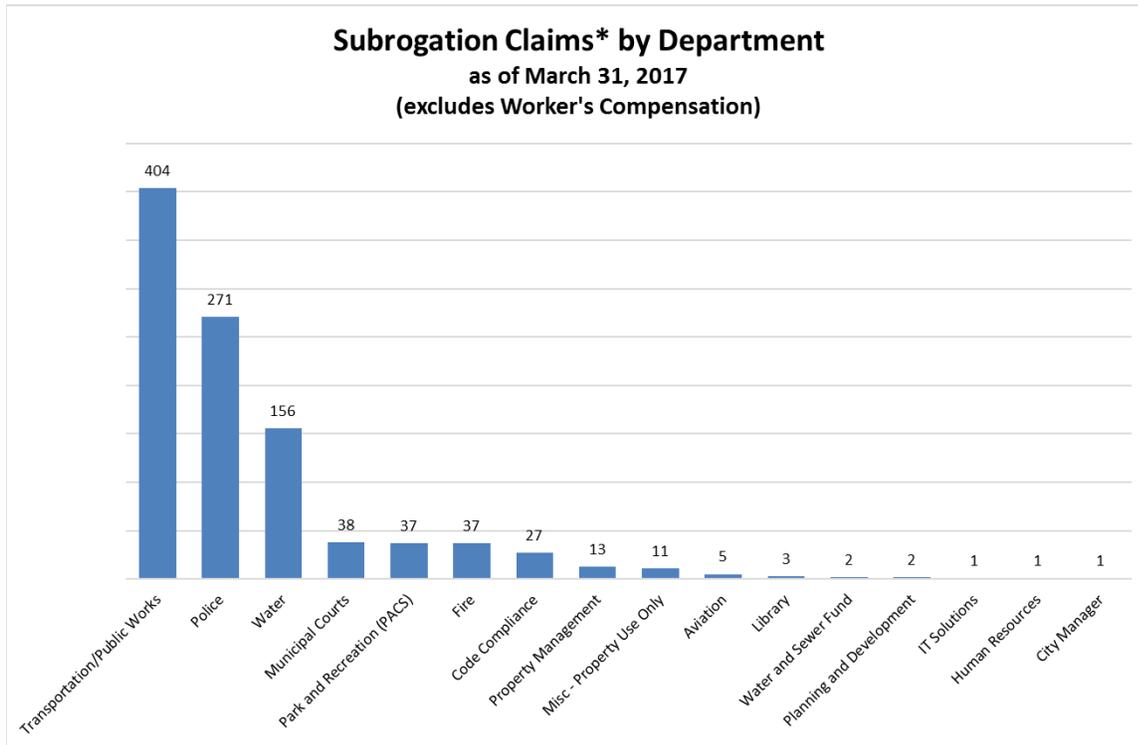
## Acknowledgements

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The Department of Internal Audit would like to thank the Risk Management Division of the Human Resources Department, the Police, Transportation and Public Works and Water Departments, and the City Attorney's Office for their cooperation and assistance during this audit.



## Exhibit I



Source: Origami

\*Open, Closed, Reopened