Audit of General Liability, Automotive, and Subrogation Claims Administration

September 22, 2023

Mark S. Swann, City Auditor

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City of Dallas

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Executive Summary

Objective and Scope

The objectives of this audit were to determine:

- Are there any barriers for residents and visitors to file a claim against the City?

- Are claim reserve amounts sufficient to cover general liability and automotive accident claims?

- Does the Office of Risk Management collect the estimated subrogation amounts on insurance claims?

The scope of the audit was general liability and automotive accident claims up to $100,000, and subrogation claims processed by the Office of Risk Management from October 1, 2019, through March 31, 2022.

Recommendations

Management should:

- Review, authorize, and document damage estimates and subrogation settlements.

- Prevent and detect deletions of incident records in Origami.

Background

The Office of Risk Management processes claims of damages against the City and recovers money through subrogation from third parties for injuries to City personnel and damages to City property.

During Fiscal Years 2020 through 2022, residents filed 4,268 claims against the City alleging total damages of $6,151,755, which resulted in a total payout of over $3,668,357, 60 percent. During the same period, the Office of Risk Management filed a total of 469 subrogation claims for an estimated $2,312,191 in damages and recovered $1,155,950, 50 percent.

Observed Conditions

Dallas residents and visitors to the City have various avenues for filing a claim against the City if their property is damaged. The City has sufficient reserves for the Office of Risk Management to cover claims for worker's compensation, general liability, and automotive accident claims. However, some of the subrogation claims settled by the Office of Risk Management were for less than the damages incurred by the City. These claims do not include supporting documentation with an explanation of: (1) why a claim was settled for less; or, (2) whether the Office's management reviewed and authorized the settlement.

Also, some Origami loss incident records were deleted from the database without documented authorization. It is unknown whether these incident records may have contained claims for which the City could collect subrogation amounts or were duplicate or unintentional incident records.

Objectives and Conclusions

1. Are there any barriers for residents and visitors to file a claim against the City?

   No. Auditors did not encounter barriers when using the City's internet portal, phone, mail, e-mail, fax, or filing test claims in-person at City Hall.

2. Does the Office of Risk Management have claim reserve amounts sufficient to cover general liability and automotive accident claims against the City?

   Yes. The City has sufficient reserves to cover general liability and automotive accident claims. The total amount of these claims has been decreasing year over year during the audit period. To have the reserves to cover the claims, the City has set up three dedicated funds to pay for worker's compensation, general liability, and automotive accident claims. In addition, the General Fund's Emergency and Contingency Reserves and the residual balance are also available to cover claims against the City. (See Exhibit 1 below).

   Exhibit 1:

   Comparison of General Liability and Automotive Accident Claims and Reserves

Fiscal Year	General Liability and Automotive Accident Claims	Dedicated Funds[1]	Emergency Reserves
2020	$2,063,598	$12,112,140	$223,000,000
2021	$1,937,052	$23,576,660	$236,000,000
2022	$2,151,105	$27,856,803	$272,100,000

   Source: Origami database, AMS Advantage Financial System, and City of Dallas Budget

3. Does the Office of Risk Management pursue and collect the estimated subrogation amounts on insurance claims?

   Generally, yes. During the Fiscal Years 2020 through 2022, the Office of Risk Management created and processed a total of 469 subrogation claims. Some of these claims were eventually settled for amounts less than the amounts of damages incurred by the City and do not include supporting documentation with an explanation of: (1) why a claim was settled for less; or, (2) whether the Office's management reviewed and authorized the settlement. (See Observation A.)

   In addition, during the audit period, five Origami users deleted 301 loss incident records in the Origami database. It is unknown whether these incident records may have

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[1] The sum of Budget Object Codes 3310 "Insurance" and 3314 "Premiums for Public Liability and Public Damages".

contained claims for which the City could collect subrogation amounts or were duplicate or unintentional incident records. (See Observation B.)

Audit Results

Both *City Council Resolution 88-3428* and Administrative Directive 4-09*, Internal Control* prescribe policy for the City to establish and maintain an internal control system. The audit observations listed are offered to assist management in fulfilling their internal control responsibilities.

Observation A: Subrogation Documentation

Some of the subrogation claims that were settled by the Office of Risk Management for less than the damages incurred by the City do not include supporting documentation with an explanation of: (1) why a claim was settled for less; or, (2) whether the Office's management reviewed and authorized the settlement. In addition, some of the claims show amounts of damages incurred by the City that are lower than the estimates documented in the adjusters' notes included with the claims.

As a result, the City may not have maximized recovery of eligible subrogation claim amounts. In addition, reports of estimated damages to City property may be inaccurate.

A review of Origami documentation for a judgmental sample of 16 subrogation claims processed by the Office of Risk Management for less than the estimate of damages shows the following:

- None of the reviewed claims include an explanation of why these claims were settled for less than the estimate of damages.

- There is no evidence of management review and approval of the settlement for 12 claims.

- Adjusters' notes show estimates of damages were higher than the final number recorded in Origami for four claims by a cumulative total of $14,070, ranging between $339 and $9,540.

A separate judgmental sample of 12 subrogation claims shows zero-dollar damages to City property contrary to adjusters' notes that describe estimated total damages of $10,828.

The Office of Risk Management's subrogation procedures do not include work instructions related to:

- Documentation of actual damage estimates.

- Management review and authorization of settlements.

- Documentation of the management review and authorization.

Criteria

- ❖ *Subrogation Standard Operating Procedure*

- ❖ Standards for Internal Control in the Federal Government:

    Principle 10 – Design Control Activities

    Principle 16 – Perform *Monitoring Activities*

Assessed Risk Rating:

High

We recommend the **Director of the Office of Risk Management:**

A.1: Develop and implement subrogation work instructions related to:

- Documentation of actual damage estimates.

- Management review and authorization of settlements.

- Documentation of the management review and authorization.

Observation B: Deletion of Records

During the audit period of October 1, 2019, to March 31, 2022, the Office of Risk Management deleted at least 301 loss incident records. As a result, the Office of Risk Management may not have processed some of the claims if the underlying incident records were accidentally or purposefully deleted.

The Office of Risk Management uses an Origami computer database to initiate and track incidents of loss that may become insurance claims. Origami automatically assigns a sequential number to each new incident. In addition, Origami creates an audit trail of deletions. The audit trail shows five Origami users deleted a total of 301 incidents between October 1, 2019, and March 31, 2022. However, an analysis of incidents entered into Origami during this period shows that there are 578 gaps in the numbering sequence, indicating that more than just 301 incidents may have possibly been deleted from the system.

While the audit trail shows an incident as deleted and the user who performed the delete operation with a timestamp, it does not record the incident number making it impossible to identify which incident was deleted.

In addition, the Office of Risk Management does not have a written procedure with instructions on how to: (1) authorize deletions of records; (2) document what was deleted and why; and, (3) prevent and detect unauthorized deletions.

Criteria

❖ AICPA Criteria for Describing a Set of Data and Evaluating its Integrity

❖ Standards for Internal Control in the Federal Government:

Principle 10 – Design Control Activities

Principle 13 – Use Quality Information

Principle 16 – Perform Monitoring Activities

Assessed Risk Rating:

Moderate

We recommend the **Director of the Office of Risk Management:**

B.1: Develop and implement a written procedure with instructions on how to: (1) authorize deletion of records; (2) document what was deleted, the reason for deletion, and who deleted the records; and, (3) prevent and detect unauthorized deletions of records from Origami.

Appendix A: Background and Methodology

Background

The Office of Risk Management protects the City of Dallas' assets and guards against risks and safety hazards that could adversely impact City operations. The Division of General Liability and Claims Administration processes claims of damages against the City and recovers money through subrogation from third parties for injuries to City personnel and damages to City property.

The Office of Risk Management has a total of 47 full time employee positions, 15 of whom process worker's compensation, general liability, and property insurance claims. The Office's operating budget in Fiscal Year 2023 was $5,934,974.

Processing of General Liability and Automotive Claims

Automotive claims are claims against the City for vehicle damages and bodily injury suffered by other parties where the City is allegedly at fault. General Liability claims are claims for damages to other parties' property where the City is allegedly at fault.

Citizens file a *Notice of an Incident* against the City using the City's Online Portal, phone, mail, e-mail, fax or filing in-person at City Hall. An Office of Risk Management adjusters review the incidents and decides on whether to initiate a claim. Once a claim is initiated, the adjuster contacts the claimant, negotiates a settlement, and issues a payment.

During the Fiscal Years 2020 through 2022, citizens filed 4,268 claims against the City alleging total damages of $6,151,755, which resulted in a total payout of $3,668,357, 60 percent. (See Exhibit 2).

Exhibit 2:

<div align="center">Claims against the City[2]</div>

Fiscal Year	Number of Claims	Amount (Alleged Damages)	Settlement Payout
2020	1,512	$2,063,598	$1,708,834
2021	1,334	$1,937,052	$955,674
2022	1,422	$2,151,105	$1,003,849
Total:	**4,268**	**$6,151,755**	**$3,668,357**

Source: Origami

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[2] Fiscal Years 2020 and 2021 data is by the date of loss. Fiscal Year 2022 data is by Origami entry date.

The Office of Risk Management files subrogation claims against other parties to recover damages to City property, vehicles, and bodily injury to City personnel. In Fiscal Years 2020 through 2022, the Office of Risk Management filed a total of 469 claims for an estimated $2,312,191 (See Exhibit 3) in damages and recovered $1,155,950, 50 percent. (See Exhibit 3).

Exhibit 3:

Subrogation Claims against Other Parties

Fiscal Year	Number of Claims	Amount (Estimated Damages)	Recovery[3]
2020	121	$919,535	$592,403
2021	73	$565,384	$493,802
2022	275	$827,272	$69,745
Total	**469**	**$2,312,191**	**$1,155,950**

Source: Origami

Damage to City infrastructure is reported to the Office of Risk Management by the Texas Department of Transportation when the City's property has been damaged as a result of vehicle and other accidents. Some of these accident reports result in a subrogation claim if the party at fault for the damages can be identified. (See Exhibit 4.) According to the Office of Risk Management's *Subrogation Standard Operating Procedures,* they do not pursue damages to street curbs and street light poles. There is no procedure for City Departments to report damage to City infrastructure to the Office of Risk Management.

Exhibit 4:

Comparison of Incidents Reported by Texas Department of Transportation and Resulting Claims in Origami

Sample Month	Reported by Texas Department of Transportation	Property Damage Subrogation Claims	Percent
May 2020	67	7	10.4
February 2021	108	12	11.1
March 2021	93	23	24.7
February 2022	104	8	7.7

Source: Texas Department of Transportation reports and Origami

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[3] Fiscal Years 2020 and 2021 recoveries include payments from claims filed in prior years.

Methodology

The audit methodology included: (1) interviews of Office of Risk Management personnel; (2) reviews of policies and procedures, relevant City Council resolutions, and City administrative directives; (3) identifying risks to meeting the Office of Risk Management service objectives; and, (4) evaluating internal controls, processes, and financial and operational information.

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 upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major Contributors to the Report

Zachary Goebel – In-Charge Auditor
Anatoli Douditski, MPA, CIA, CFE, ACDA – Engagement Manager

Appendix B: Management's Response

Memorandum

CITY OF DALLAS

DATE: September 21, 2023

TO: Mark S. Swann – City Auditor

SUBJECT: Response to Audit of General Liability, Automotive, and Subrogation Claims Administration

This letter acknowledges the City Manager's Office received the *Audit of General Liability, Automotive, and Subrogation Claims Administration* and submitted responses to the recommendations in consultation with the Office of Risk Management.

The Office of Risk Management (ORM) is pleased the audit concluded there are no barriers for residents and visitors to file a claim against the City. Further, the audit concluded the City has sufficient claim reserves to cover general liability and automotive accident claims.

ORM recognizes the importance of having complete and accurate work instructions. ORM has begun revising the existing subrogation standard operating procedure (SOP) to include documenting the actual damage estimates versus the settled amount, management's review and authorization of settlements, and the documentation expectations for management's review and approval of settlements.

In addition, ORM will draft an SOP to include written instructions on properly authorizing and documenting the deletion of incident records. To prevent and detect unauthorized deletions, the Risk Management Information System (RMIS) Administrator maintains a deletion log and is the only person authorized to delete incident records. Lastly, ORM will establish a periodic review process to ensure the RMIS Administrator only deletes records upon proper authorization.

Sincerely,

T.C. Broadnax
City Manager

C: Genesis D. Gavino, Chief of Staff
Jack Ireland, Chief Financial Officer
Kimberly Bizor Tolbert, Deputy City Manager
Zeronda Smith, Director, Office of Risk Management

"Our Product is Service"
Empathy | Ethics | Excellence | Engagement | Equity

Assessed Risk Rating	Recommendations	Concurrence and Action Plans		Implementation Date	Follow-Up/ Maturity Date
High	We recommend the **Director of the Office of Risk Management:**				
	A.1: A.1: Develop and implement subrogation work instructions related to: • Documentation of actual damage estimates. • Management review and authorization of settlements. • Documentation of the management review and authorization.	**Agree**	The Office of Risk Management (ORM) has drafted revisions to its existing subrogation standard operating procedure (SOP) to ensure an effective and consistent process for the activities listed in the recommendation. The draft revisions will be reviewed, tested, and further refined, if necessary, before being finalized.	12/31/2023	3/31/2024
Moderate	We recommend the **Director of the Office of Risk Management:**				
	B.1: Develop and implement a written procedure with instructions on how to: (1) authorize deletion of records; (2) document what was deleted, the reason for deletion, and who deleted the records; and, (3) prevent and detect unauthorized deletions of records from Origami	**Agree**	ORM will draft an SOP to ensure an effective and consistent process for deleting incidents from Origami. ORM's SOP will describe the process for requesting and authorizing the deletion of records. The SOP will also include ORM's process for logging requests to delete records, including what was deleted, the reason for the deletion, and who deleted the record. Additionally, ORM's process will minimize the risk of unauthorized deletions by configuring Origami so only the Risk Management Information System (RMIS)	12/31/2023	6/30/2024

Assessed Risk Rating	Recommendations	Concurrence and Action Plans	Implementation Date	Follow-Up/ Maturity Date
		Administrator can delete records. Lastly, ORM will establish a periodic review process to ensure the RMIS Administrator only deletes records upon proper authorization.		