Internal Audit Division – Assurance Audit Report

Office of Risk Management

Internal Controls Audit of Liability/Property Insurance Claiming Process

October 17, 2023
Assignment #: 10369

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Executive Summary

Background

Internal Audit Division (IAD) evaluated internal controls of the Office of Risk Management's (Risk Management) Liability/Property Claims Division (LPCD) processes. The audit was selected through our FY 2022-23 annual risk assessment and audit planning process.

Risk Management reports to the Office of the County Executive and provides in-house handling of auto liability, property loss, subrogation claims and other claim types filed against any department within the County of Santa Clara (County).

Objective

The audit was performed to determine if:
(1) the insurance claiming process was operating effectively,
(2) adequate segregation of duties existed within LPCD processes,
(3) internal controls over claim payments were adequate (e.g., adequately supported, properly authorized, issued to the right payee, issued to eligible claimants and accurately recorded) and
(4) costs recovered from subrogation claims were properly authorized and deposited timely.

Scope

The audit scope focused on automobile liability and property loss claim payments issued from July 1, 2020 to June 30, 2022. We also reviewed a sample of subrogation claims recovered during the same period.

What We Found

Risk Management oversees and administers the following areas:

- Workers' Compensation,
- Liability and Property Insurance,
- Liability and Property Claims,
- Subrogation Claims coordinated with Valley Medical Center (VMC)
- Occupational Safety and Environmental Compliance Divisions, and
- Self-administered claims management operations.

LPCD uses a cloud-based system to increase operational efficiencies through process automation and customized reporting for filed claims impacting countywide department.

Overall, we found the department has sufficient controls over administration of the LPCD and subrogation claims processes to ensure operational effectiveness and mitigate potential risks. To further strengthen internal controls, we identified six improvements in the areas summarized below and detailed in the ***Findings and Recommendations*** section of this report.

Operating Effectiveness - insurance claiming process has the following three findings:

- Outdated Claims Manual and no succession planning
- Delay in processing a claim
- Annual status reports not provided to County departments

Operating Effectiveness - IT system access controls has the following one finding:

- Yearly user access audit was not conducted

Segregation of duties within LPCD Processes has the following one finding:

- Lack of segregation of duties

Authorization of subrogation claims has the following one finding:

- Missing delegation of authority for reducing VMC Subrogation claim amounts

We also noted three "***Other Observations***" submitted for Risk Management's consideration.

Executive Summary

The chart below summarizes risk categories for each audit area by priority ratings.

#	Area	Priority Rating			Total
		High (1)	Medium (2)	Low (3)	
1	**Operating effectiveness - insurance claiming process**	1	-	2	**3**
2	**Operating effectiveness - IT system access**	1	-	-	**1**
3	**Segregation of duties within LPCD processes**	-	1	-	**1**
4	**Internal controls over claim payments**	-	-	-	**-**
5	**Authorization and timely deposit of subrogation claims**	-	1	-	**1**
Total Findings		**2**	**2**	**2**	**6**

See **Appendix 1** for definition of priority ratings.

Audit reports are designed to assist management and provide constructive recommendations for improving their operations. As a result, the report generally does not address activities reviewed that are functioning effectively; however, Appendix 4 highlights accomplishments of Risk Management's administration over LPCD. The draft report was discussed with management prior to final issuance. A total of 11 recommendations were made for the six findings noted in the table above. Management agreed with all recommendations. Attached herein is their formal response. In accordance with professional auditing standards, IAD intends to perform a follow-up audit on the recommendations presented.

Prior to issuance of this report, Risk Management began addressing our recommendations by spot-checking supporting documentation for payments approved within the Claims Adjusters' authority level and working with information technology staff to perform an audit of the claims management system, Origami Risk, user permission levels to ensure only authorized individuals are allowed access.

We conducted the engagement in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

It is anticipated this report will be submitted to the Finance and Government Operations Committee in Winter 2023. This report is intended solely for the County and its stakeholders; however, this report is a matter of public record and its distribution is not limited.

We appreciate the opportunity to participate in this value-added audit to aid in Risk Management's goal of protecting the County's assets by properly handling all claims in compliance with applicable policies, laws and regulations. We would like to thank management and staff for their time, cooperation and assistance provided throughout the engagement.

Robyn Rose, CPA, CICA
Internal Audit Manager
October 17, 2023

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OPERATING EFFECTIVENESS: INSURANCE CLAIMING PROCESS

FINDING 1: Outdated Claims Manual and no succession planning	
OBJECTIVE	To verify if current LPCD processes were reflected in policies and procedures and succession plans were established for key roles and responsibilities.
CRITERIA	U.S. Government Accountability Office's Standards of Internal Controls in the Federal Government ("Green Book"), Principle 12 states "Management should implement control activities through policies. The policies should be documented in the appropriate level of detail to allow management to effectively monitor the control activity." Green Book, Principle 4 states "Management should demonstrate a commitment to recruit, develop, and retain competent individuals." Government Code Section 911.2(a) states in part "A claim relating to a cause of action [e.g., accident] for death or for injury to person or to personal property or growing crops shall be presented…not later than six months after the accrual of the cause of action."
CONDITION	We noted the Property and Liability Claims Procedure Manual (Claims Manual) was last updated in 2014 and does not reflect the current organizational reporting structure and technology integrations such as Risk Management's transition from Employee Services Agency (ESA) to CEO, referring all General Liability and Medical Malpractice claims to the Office of the County Counsel (County Counsel) and implementation of the Origami Risk system. The following information in the Claims Manual was also unclear or not included, which could lead to inconsistencies in the claiming process: • Section IV includes a requirement of the Claims Adjuster to send County departments an acknowledgement memo within 10 business days from assignment of a new claim; however, the claim types requiring a notification is not defined. • Section X provides direction on closure settlement authority for third-party bodily injury and property damage claims, but does not include guidance for direct damage and theft loss internal/first-party claims. • Section X includes reference to completing a release form for bodily injury settlements greater than $600; however, the manual does not state that the form is not necessary for property damage claims. • Guidance on filing third-party or internal/first-party claims within statute of limitations established in Government Code Section 911.2(a) is not included. • Claim types handled by LPCD are listed; however, a description for each claim's purpose is not documented to assist staff differentiate between the various types of claims.

Findings and Recommendations

FINDING 1: Outdated Claims Manual and no succession planning (Continued)	
CONDITION ***(Continued)***	Additionally, we found the Director of Risk Management and the Insurance Contract and Claims Manager who administer the LPCD and Workers' Compensation areas are long-tenured County employees. Thus, institutional knowledge of current departmental processes could be lost if these employees terminate without a succession plan. Lack of succession planning coupled with outdated or unclear policies could negatively impact continuity of operations, lead to non-compliance with applicable guidance and reduce operational effectiveness.
RECOMMENDATIONS	**1.1** Risk Management should periodically review and update policies and procedures in collaboration with County Counsel. **1.2** Risk Management should update the Claims Manual and consider including the following: • Claim types requiring an acknowledgement memo to County departments within 10 business days from assignment of a new claim. • Delegation of settlement authority for all claim types, including internal/first-party claims. • The process for granting an exception when a release form is not required. • Applicability of the statute of limitation for third-party claims and internal/first-party claims. • Definition of the different claim types. **1.3** Risk Management should create succession plans for key roles and consider cross-training internal staff for senior positions to enable knowledge sharing.
PRIORITY/EXPECTED COMPLETION DATE	**Low (3) – Within six to 12 months after issuance of the final audit report**
MANAGEMENT'S RESPONSE	Agreed - Risk Management will ensure claims handling policies and procedures are up-to-date, including changes to the Claims Manual, and develop succession plans.

Findings and Recommendations

FINDING 2: Delay in processing a claim	
OBJECTIVE	To verify if claim were processed timely.
CRITERIA	Government Code Section 911.2(a) states in part "A claim relating to a cause of action [e.g., accident] for death or for injury to person or to personal property or growing crops shall be presented…not later than six months after the accrual of the cause of action."
CONDITION	Based on results of testing procedures, we noted one of 29 claims reviewed (3.4%) was filed six months after the accident date. The claimant contacted the department within two days after the automobile accident to determine next steps for initiating a claim. Additional attempts were made by the claimant over a six-month period until clear guidance was provided. The claimant was unaware they could file a claim before obtaining a Vehicle Accident Report from the County employee involved. The delay for this instance was due to a language barrier between the Claims Adjuster and claimant coupled with communication delays during the COVID-19 pandemic. As a result, the claim was not settled until approximately 12 months after the incident occurred. Longer processing times could lead to backlogs and delays in issuance of payments.
RECOMMENDATIONS	**2.1** Risk Management should continue providing claimants with timely guidance regarding the claim filing process by directing them to download the County's Claim Form from the Clerk of the Board of Supervisors' public-facing website or an electronic option, if available. **2.2** The Claims Manager should ensure Claims Adjusters follow the current practice of informing claimants they can proceed with filing a claim before obtaining required information such as a Vehicle Accident Report from the County employee involved in the auto-related accident.
PRIORITY/EXPECTED COMPLETION DATE	**High (1) – Within one to three months after issuance of the final audit report**
MANAGEMENT'S RESPONSE	Agreed - Risk Management will ensure all claims are handled in a proper and timely manner.

Findings and Recommendations

FINDING 3: Annual status reports not provided to County departments	
OBJECTIVE	To verify if annual status reports were provided to County departments for monitoring the cost and recovery of claims.
CRITERIA	Green Book, Principle 14 states "Management should internally communicate the necessary quality information to achieve the entity's objectives."
CONDITION	Based on inquiry with management, we noted annual status reports of claims information previously provided to County departments and CEO ceased as of December 2020. The reports were used to help departments timely identify areas with high-risk exposure and obtain accurate projections for claim payment amounts to assist with the annual budget planning process. Management also stated they initially worked with their current claims management system vendor, Origami Risk, to develop an automated report for departments; however, the reporting feature was not implemented due to challenges encountered with application capabilities. We also noted subrogation claim [1] information for costs recovered from third parties was not previously included on the annual reports as they were not considered one of Risk Management's core responsibilities; however, these amounts could also impact department's budget planning and cost recovery efforts. Not providing periodic status updates to stakeholders could hinder evaluation of a department's performance, monitoring of financial impacts and identification of potential risks.
RECOMMENDATIONS	**3.1** Risk Management should resume providing annual status reports to County departments and CEO detailing claims impacting their department as soon as Origami Risk has made these report formats available to the department for production. The report should include the following information: • the number and type of claims, • division or funding areas impacted, • claim status (e.g., paid in full, declined, or partially negotiated) and • total costs incurred. This information will timely assist departments and executive management identify areas with the highest risk exposure and incorporate the projected financial costs into their annual budget planning process. **3.2** Risk Management should periodically provide larger departments with information related to subrogation claims such as status of communication with the liable party, amount recovered (e.g., in full/partial/written off) and date recovered. This information would assist management identify potential opportunities to fully maximize loss recovery efforts and collect additional revenue.
PRIORITY/EXPECTED COMPLETION DATE	**Low (3) – Within six to 12 months after issuance of the final audit report**
MANAGEMENT'S RESPONSE	Agreed - Risk Management will work on providing departments with annual status reports.

[1] A subrogation claim refers to when an insurer (e.g., County) pursues the recovery of costs incurred by an injured party (e.g., medical expenses and property damages) from the at-fault third-party.

OPERATING EFFECTIVENESS: IT SYSTEM ACCESS CONTROLS

FINDING 4: Yearly user access audit was not conducted	
OBJECTIVE	To verify if access to the records is limited to appropriate persons.
CRITERIA	County's Information Security Office (ISO) Handbook, Risk Assessment, Section 3.1.1 states in part "The SO [Information System Owner] shall ensure the assessment of risk at the system level in a manner consistent with organizationally defined values. Risk assessments for…County information systems and/or information systems that process, store or data shall be conducted in accordance with NIST SP 800-39 and NIST SP 800-30." ISO Handbook, Planning, Section 3.1.1 states in part "Ensure the use of information systems is restricted to Santa Clara County approved users…"
CONDITION	County's ISO performed a Security Risk Assessment (Assessment) in 2017 prior to implementation of the Origami Risk system used by Risk Management to process various claims. The Assessment includes reviewing vendor documents (e.g., System and Organization Controls (SOC)[2] 2 Type II reports, contracts, and other supporting documents) and provide corrective actions to address deficiencies noted. County's ISO recommended a yearly audit on access rights for system users; however, we noted the review was not performed to-date. Inappropriate access to systems containing confidential information may result in compromised data or potential unauthorized activities.
RECOMMENDATION	**4.1** To comply with ISO's recommendation, Risk Management should work with the County's Technology Services and Solutions (TSS) department to conduct an annual audit of Origami Risk user permission levels to ensure only authorized individuals are allowed access to the system, which reduces the risk of errors or unauthorized alteration of data.
PRIORITY/EXPECTED COMPLETION DATE	**High (1) – Within one to three months after issuance of the final audit report**
MANAGEMENT'S RESPONSE	Agreed - Risk Management will work with TSS to perform an annual audit of permission levels.

[2] A SOC report is an examination by an independent CPA to report on effectiveness of a service organization's internal controls and safeguards in place, which enable entities to feel confident they are operating in an ethical and compliant manner. A SOC 2, Type II report evaluates controls relevant to the following trust services criteria: Security, Availability, Processing integrity, Confidentiality and Privacy. The report also focuses on evaluating the fairness of management's presentation of a system and suitability of the controls design and operating effectiveness to achieve its objectives for a given period.

SEGREGATION OF DUTIES

<table>
<tr><th colspan="2">FINDING 5: Lack of segregation of duties</th></tr>
<tr><td>OBJECTIVE</td><td>To determine if adequate segregation of duties exists for incompatible duties such as recordkeeper, approver, custodian and reconciler.</td></tr>
<tr><td>CRITERIA</td><td>Per the Claims Manual dated 2014, delegation of authority for approving monetary settlement amounts at various levels was granted to Risk Management - LPCD by the County's Board of Supervisors for third-party bodily injury and property damage claims. The monetary settlement authority levels for LPCS staff include:
Claims Adjuster – up to $7,500,
Claims Manager – up to $20,000,
Director of Risk Management– up to $50,000, and
Board of Supervisors – over $50,000.
Green Book, Principle 10 states "Management should design control activities to achieve objectives and respond to risks such as Segregation of Duties which includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event."</td></tr>
<tr><td>CONDITION</td><td>Based on results of testing procedures, we noted 16 of 29 claims reviewed (55.2%) under the $7,500 threshold were evaluated and approved by a Claims Adjuster. The approval is in accordance with the department's monetary settlement authority; however, there is no segregation of duties as the same staff reviewing the claim also authorizes the final settlement amount.

When reviewing total claims data for the audit period, we observed 142 payments totaling $252,805 were approved by the Claims Adjuster at or below the $7,500 threshold:

<table><tr><th>Fiscal Year</th><th># of payments</th><th>Amount</th></tr><tr><td>FY 2020-2021</td><td>66</td><td>$115,411</td></tr><tr><td>FY 2021-2022</td><td>76</td><td>$137,394</td></tr><tr><td></td><td>Total 142 payments</td><td>$252,805</td></tr></table>
Without adequate segregation of duties, there is a risk of issuing inappropriate payments due to lack of secondary review.</td></tr>
<tr><td>RECOMMENDATION</td><td>5.1 As a compensating control, Risk Management should implement a formal practice of requiring the Claims Manager to spot check supporting documentation for payments solely reviewed and authorized by the Claims Adjuster to ensure they were accurately processed.</td></tr>
<tr><td>PRIORITY/EXPECTED COMPLETION DATE</td><td>Medium (2) – Within three to six months after issuance of the final audit report</td></tr>
<tr><td>MANAGEMENT'S RESPONSE</td><td>Agreed - Risk Management has implemented a formal practice of spot-checking supporting documentation.</td></tr>
</table>

AUTHORIZATION OF CLAIMS

FINDING 6: Missing delegation of authority for reducing VMC Subrogation claim amounts	
OBJECTIVE	To verify if cost recovery reductions for VMC subrogation claims were approved by authorized personnel.
CRITERIA	Per Claims Manual dated 2014, "A Lien Review Committee, consisting of the ESA-Director of Risk Management and the Valley Medical Center (VMC)-Director of Patient Business Service Accounts designee of VMC Executive Director (designee of the County Executive), are responsible for making final decisions with respect to the resolution of the County's lien claims with recovery less than 60% of the total lien."
CONDITION	The County can legally request a portion of the final monetary settlement amount from an at-fault third-party's insurance company through the subrogation lien claims process. LPCD and VMC-Patient Business Services coordinate to seek reimbursement from insurance companies for the recovery of costs incurred by the injured party (e.g., medical expenses). In certain instances, reductions in final monetary settlement amounts require approval by the Lien Review Committee. Based on results of testing procedures, we noted four of six subrogation claims reviewed (66.7%) with lien reduction amounts ranging between $50,000 to $300,000 were approved by the Director of Risk Management and a manager at VMC who did not have written authorization for approval. An official delegation of authority was not documented to support the VMC manager as designee to approve the lien reduction amounts. Instead, the authority was granted verbally by the VMC Director. Not formally documenting the delegation of authority can lead to confusion about approval responsibilities and potential unauthorized lien reduction amounts, resulting in unreasonable settlement amounts or non-compliance with predetermined thresholds.
RECOMMENDATIONS	**6.1** Risk Management should coordinate with VMC management to document the delegation of authority for authorizing reductions in subrogation claim amounts. **6.2** Risk Management should ensure the Claims Manual is updated to reference the written delegation of authority.
PRIORITY/EXPECTED COMPLETION DATE	**Medium (2) – Within three to six months after issuance of the final audit report**
MANAGEMENT'S RESPONSE	Agreed - Risk Management will work with VMC management to update their delegation of authority for subrogation claim settlements and update the Claims Manual accordingly.

APPENDIX 1: DEFINITION OF PRIORITY RATINGS FOR AUDIT RECOMMENDATIONS

Priority Ratings	Definition of Priority Ratings and Suggested Implementation Timeframe
High / Priority One (1)	Priority One recommendations are assigned to the highest assessed level of risk. For these recommendations, internal controls are considered poor or insufficient, which results in the likelihood of financial loss, waste, misappropriation of assets, or errors for the area(s) evaluated. Priority One recommendations also include issues related to non-compliance with laws, regulations or policies and procedures. Management should urgently implement these recommendations within one to three months after issuance of the final audit report to avoid risk exposure.
Medium / Priority Two (2)	Priority Two recommendations are assigned to the moderately assessed level of risk. For these recommendations, internal controls provide reasonable assurance that the County program(s) or area(s) evaluated are protected from potential financial loss, waste, misappropriation of assets, or errors; however, additional action is needed to strengthen current practices. Management should promptly implement these recommendations within three to six months after issuance of the final audit report to improve internal control processes.
Low / Priority Three (3)	Priority Three recommendations are assigned to the lowest assessed level of risk. For these recommendations, internal controls are operating as designed to ensure the County program(s) or area(s) evaluated are protected from potential financial loss, waste, misappropriation of assets, or errors. These recommendations are desired actions to enhance current practices. Management should consider implementing these recommendations within six to 12 months after issuance of the final audit report to provide additional confidence in the internal control system.

APPENDIX 2: INTERNAL CONTROLS FRAMEWORK

We utilized guidance in the U.S. Government Accountability Office's *Standards of Internal Controls in the Federal Government* ("Green Book")[1] to evaluate best practices for internal controls within government entities. Internal controls are processes used by management to help achieve their goals and objectives related to operations, reporting, and compliance.

Standards in the "Green Book" comprise of the following five internal control components and corresponding 17 principles that work together in an integrated framework:

Components	Principles
Control Environment	1. The oversight body and management should demonstrate a commitment to integrity and ethical values. 2. The oversight body should oversee the entity's internal control system. 3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve its objectives. 4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals. 5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.
Risk Assessment	6. Management should define objectives clearly to enable the identification of risks and define risk tolerances. 7. Management should identify, analyze, and respond to risks related to achieving the defined objectives. 8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks. 9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.
Control Activities	10. Management should design control activities (i.e., policies and procedures) to achieve objectives and respond to risks. 11. Management should design the information system and related control activities to achieve objectives and respond to risks. 12. Management should implement control activities through policies.
Information and Communication	13. Management should use quality information to achieve its objectives. 14. Management should internally communicate the necessary quality information to achieve its objectives. 15. Management should externally communicate the necessary quality information to achieve its objectives.
Monitoring Activities	16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results. 17. Management should remediate identified internal control deficiencies on a timely basis.

[1] Source: https://www.gao.gov/greenbook

APPENDIX 3: PROGRAM BACKGROUND, METHODOLOGY AND SCOPE LIMITATION

PROGRAM BACKGROUND

The mission of Risk Management is to protect the County's assets by properly handling all third-party liability (i.e., external) and first-party property (i.e., internal) claims while also providing excellent customer service to County departments, claimants and the public.

The County maintains both self-insurance and commercial insurance for its exposure to automobile, general, medical malpractice and other liability claim types such as first-party property coverage for County-owned assets. Effective July 1, 2017, all general liability claims, medical malpractice claims and lawsuits are managed by County Counsel. Other types of claims such as automobile, property loss and VMC subrogation liens are managed by Risk Management – LPCD. County Counsel may refer general liability claims with limited exposure and consequence to LPCD for processing.

The County established an Internal Service Fund (ISF) for countywide departments to pool monies for claims made as result of employees' actions. The County purchases excess commercial liability insurance through Public Risk Innovation, Solutions and Management, a joint powers authority, as the ISF may not provide complete coverage.

To improve the management and monitoring of all insurance claims against countywide departments, the County entered into agreements with the following third-party service providers:

- **Origami Risk** - a cloud-based risk management information system ensuring accurate and consistent tracking and reporting of claims, policies, locations and exposures.
- **Bickmore Actuarial** - performs an annual actuarial valuation to determine the outstanding claims liabilities at fiscal year-end and an estimated funding level for the next fiscal year.

Below is a summary of the total liability and property claims settled and VMC subrogation claims recovered during the period July 1, 2020 to June 30, 2022. Of these amounts, we selected 29 liability and property claims (18.4%) and six VMC subrogation claims (3.7%) for testing.

Fiscal Year	Type of Claim	Claims Settled or Recovered	Amount Paid
FY 2020-2021	Liability and Property Claim Payments	74	$ 307,136
FY 2021-2022	Liability and Property Claim Payments	84	$ 615,171
	Total	**158**	**$ 922,307**
FY 2020-2021	VMC Subrogation Claims Recovered	103	($ 613,792)
FY 2021-2022	VMC Subrogation Claims Recovered	60	($ 447,509)
	Total	**163**	**($ 1,061,301)**

*Source: Based on information obtained from Risk Management.

Appendix

METHODOLOGY

To achieve our audit objectives, we performed the following procedures:

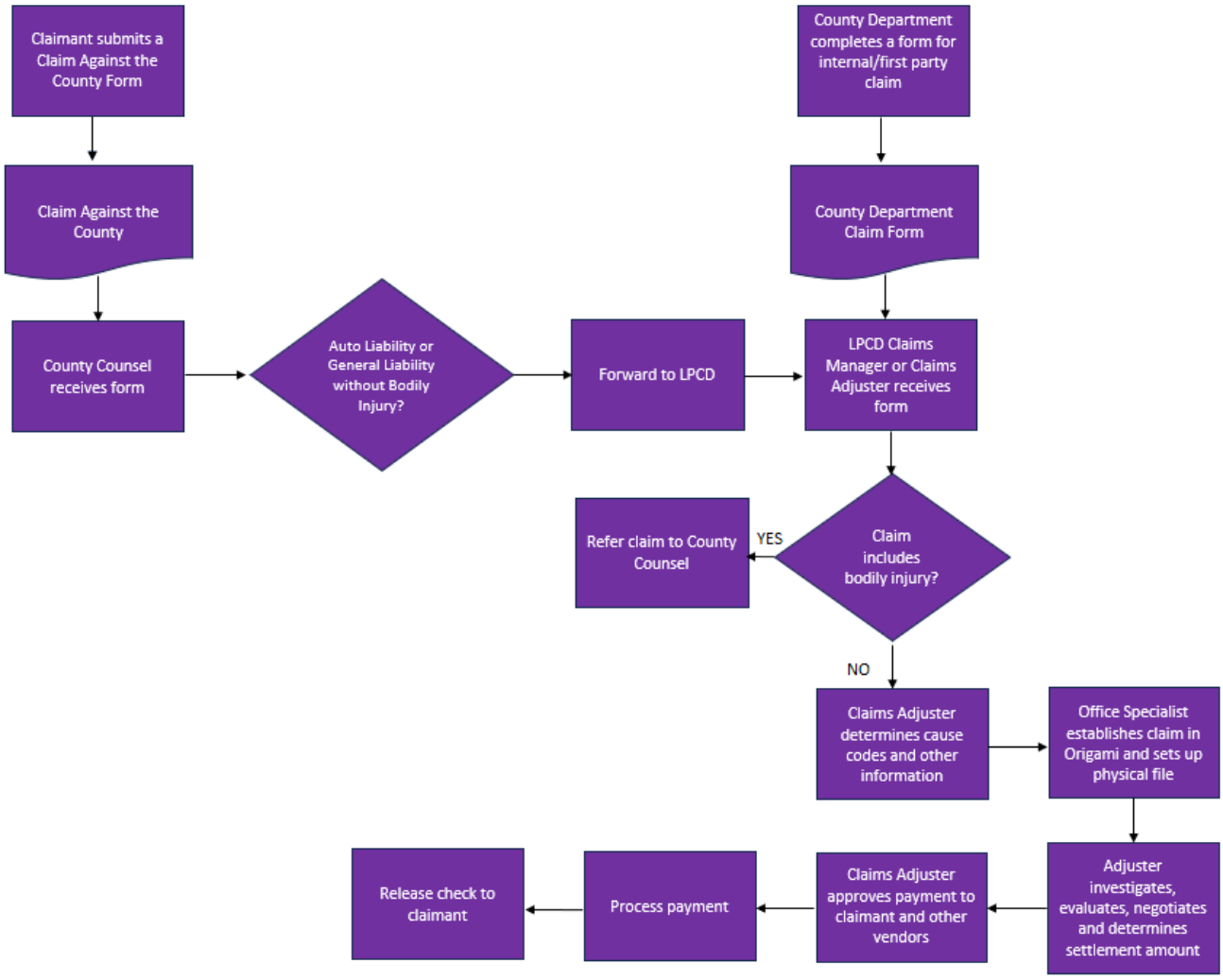
- Interviewed management to obtain an understanding of the Liability/Property Insurance Claiming process and performed walkthroughs.
- Reviewed relevant documentation related to the claim disbursement process, from claim submission to payment issuance.
- Reviewed applicable law/regulations and policies/procedures to obtain an understanding of the process of filing, reviewing, investigating, approving and paying claims.
- Selected a sample of claim payments to test for potential duplicate amounts, allowability and eligibility of amounts disbursed.
- Reviewed supporting documents to determine if amounts were authorized according to the monetary settlement authority and were issued to the correct payee.
- Selected a sample of subrogation claims to ensure the approval and claim recovery process were appropriate.
- Assessed the adequacy of internal controls of IT system used by the department by reviewing user access controls, segregation of duties and data privacy protections.

SCOPE LIMITATION

Our audit excluded general liability, medical malpractice and unsettled claims managed by County Counsel due to attorney-client privileged information. As a result, we could not access Origami Risk system. To overcome this limitation and ensure protection of sensitive information, claims data and related supporting documentation selected for testing were redacted by the department prior to review.

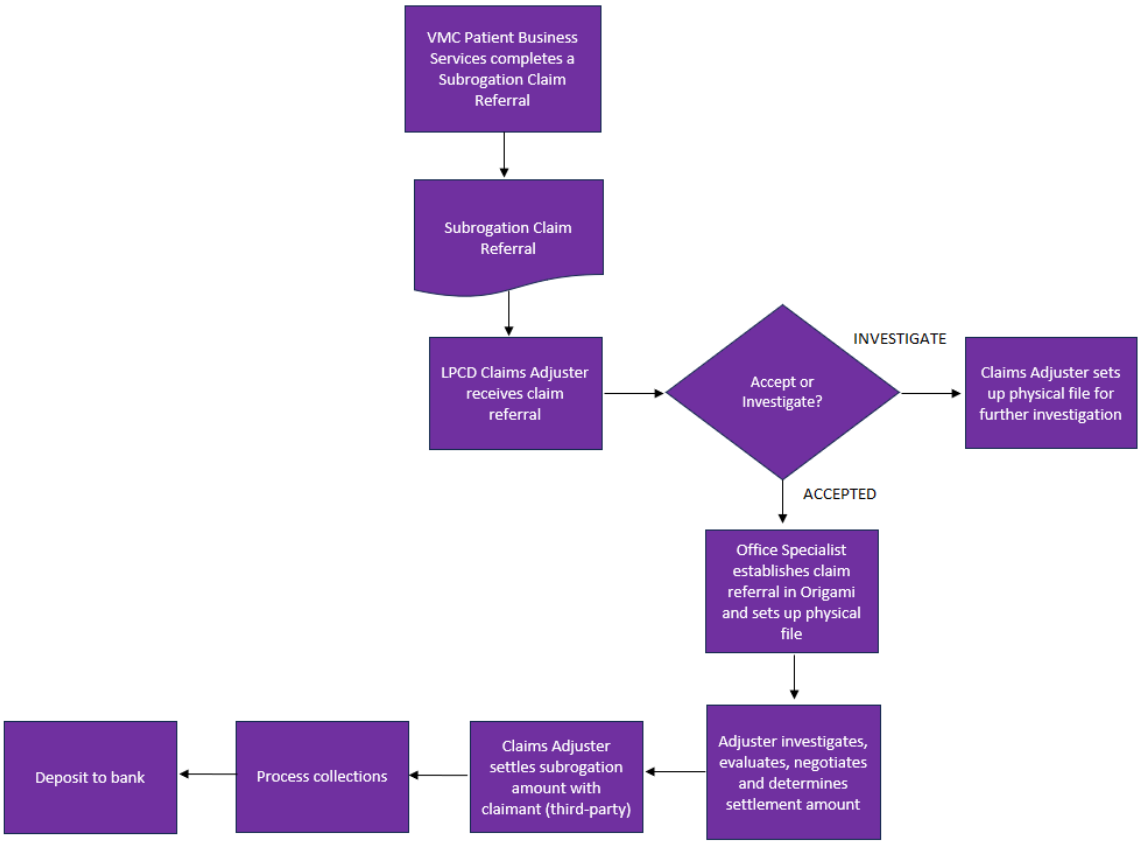
Appendix

A high-level flowchart of Risk Management – LPCD third-party and internal/first-party claim submission process:



Appendix

A high-level flowchart of the VMC subrogation cost recovery process:



APPENDIX 4: ACCOMPLISHMENTS

The following accomplishments were noted during the audit period:

- Risk Management worked with Technology Services & Solution to implement and continuously enhance the cloud-based application, Origami Risk, which consolidated two legacy systems (iVOS used for worker's compensation claims and Risk Master used for property/auto insurance and liability claims) enabling staff to work more efficiently and improve productivity.
- Examples of operational efficiencies with implementing Origami Risk includes - customized alerts, dashboard by role, ad hoc and custom reporting, additional check payment approval controls through integration with SAP financial accounting system, auto-generated claim numbers on PDF documents, allowing County Counsel access to claim information and direct management of claim reserves, improved financial reporting and availability of accessing claim-related documentation to reduce paper and manual data entry errors.
- Exceeded the annual goal of $500,000 in VMC subrogation cost recovery by collecting more than $1 million during the audit period.

Appendix 5: OTHER OBSERVATIONS (OBS)

OBS 1 - NO MINIMUM REQUIREMENT OF CONTINUING PROFESSIONAL EDUCATION FOR STAFF

Observation: Based on inquiry with management, we noted there is no minimum requirement for claims staff to take annual continuing professional education related to industry best practices or daily job duties and responsibilities. Instead, management relies on County Counsel for guidance communicated to staff when changes to industry-specific laws and regulations occur.

Without providing staff with periodic trainings related to their job duties and responsibilities, there is a risk that tasks performed are ineffective or applicable guidance and best practices are not followed.

Suggestion: Risk Management should ensure staff receive annual trainings to develop competencies, reinforce performance expectations and communicate industry best practices.

OBS 2 – ELECTRONIC CLAIMS SUMMISISON HYPERLINK IS NOT WORKING AND RISK MANAGEMENT IS NOT LISTED ON THE CEO'S WEBSITE

Observation: Based on review of Risk Management's SharePoint site, we noted the internal Origami Risk incident portal hyperlink was not operational due to technical issues with the option for visually describing an incident. The portal allows electronic submission of auto and property liability claims to reduce manual entry. We also noted the department was not listed on the CEO's website since relocating from ESA in 2017.

If an information system does not meet the department's business needs, there is an increased risk of unnecessary manual processes, errors and inefficiencies. Additionally, not updating reporting structure on public-facing websites could result in limited access to information and ineffective communication.

Suggestion: Risk Management should determine a practical solution with Origami Risk vendor for automating the claims submission process to ensure easily accessibility and reducing manual data entry. Additionally, Risk Management should coordinate with CEO to ensure they are included on the department's public-facing website for increased visibility.

OBS 3 – INVOICE NOT OBTAINED FOR A SETTLED LOW-VALUE INTERNAL COUNTY CLAIM

Observation: Based on results of testing procedures, we noted two of 29 claims (6.9%) totaling $1,379 did not have an invoice supporting reimbursement of an internal/first-party claim from a requesting County department. The Claims Adjuster settled the claim based solely on the submitted Property Loss Report Form as they are allowed to use professional judgement on completeness of documentation supporting low-value internal County claims prior to settlement.

Settling claims based on inaccurate and incomplete supporting documentation creates a risk of processing inappropriate payments.

Suggestion: Risk Management should perform spot checks of low-value claims settled by the Claims Adjuster to ensure supporting documentation is complete and payments are processed accurately.

County of Santa Clara

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Date: December 6, 2023

To: Robyn Rose
Internal Audit Manager, Internal Audit Division
Office of the County Executive

From: Lance Sposito DS LS
Director, Office of Risk Management
Office of the County Executive

Subject: Office of Risk Management Response to 2023 Internal Audit Report

Thank you for your office's work on auditing Risk Management's internal controls over the Liability/Property Insurance claim process. We appreciate your insights and recommendations to ensure operational effectiveness and mitigate potential risks of this process. We agree with the audit's recommendations, and have provided some additional comments on each item below as well.

Finding 1: Outdated Claims Manual and no succession planning

We agree with recommendations and have additional comments: Risk Management will work with County Counsel on an ongoing basis to ensure claims handling policies and procedures are up to date. We will include the audit's noted items in the Claims Manual updates, as well as describe the claims handling relationship that exists between Risk Management and County Counsel. We will also work to develop succession planning to the greatest extent possible give the small size of this unit.

Finding 2: Delay in processing a claim

We agree with recommendations and have additional comments: While the one noted claim was not a typical situation, we will work to ensure all claims are handled in a proper and timely manner.

Finding 3: Annual status reports not provided to County departments

We agree with recommendations and have additional comments: We concur and want to provide annual status reports to departments as soon as possible. We will continue to work with the claims management system vendor to complete their work on developing these report formats. We will also include subrogation data in these reports for the applicable departments.

Finding 4: Yearly user access audit was not conducted

We agree with recommendations and have additional comments: We have requested Technology Services and Solutions (TSS) perform an audit of Origami Risk user permission levels to ensure only authorized individuals are allowed access to the claims management system. We will work with TSS to perform this audit annually thereafter. TSS will perform this audit in accordance with the County's Information Security Office recommendations.

Finding 5: Lack of segregation of duties

We agree with recommendations and have additional comments: We have implemented the audit's recommended formal practice of spot-checking supporting documentation for payments that were approved within the Claims Adjusters' authority level to ensure those payments were accurately processed.

Finding 6: Missing delegation of authority for reducing VMC Subrogation claim amounts

We agree with recommendations and have additional comments: Risk Management will work VMC management to update their delegation of authority for subrogation claim settlements and include this information in the Claim Manual updates.

We are very appreciative of the time and effort that your office has dedicated to auditing the internal controls of our claim process. We agree with the audit's recommendations, some of which have already been implemented. Thank you for your team's helpful and professional collaboration on this project.