DGS
GENERAL SERVICES

MEMORANDUM

Date: August 14, 2017   File No. 6105

To: Kim Hunt, Chief
              Office of Risk and Insurance Management
              707 3rd Street, 1st Floor
              West Sacramento, CA 95605

From: **Department of General Services**
              Office of Audit Services

Subject: **Final Audit Report: Operational Review**

Attached is the final report on our operational review of the Office of Risk and Insurance Management (ORIM). The objective of the audit was to review the operations, programs, functions and activities performed by ORIM to determine whether its current systems of operational control could be improved.

Your written response dated August 9, 2017, to a draft copy of this report is included as an attachment to the report. The report also includes our evaluation of the response as an attachment. We are pleased with the actions being taken to address our recommendation.

As part of its operating responsibilities, the Office of Audit Services (OAS) is responsible for following up on its recommendations. Since operational reviews primarily result in the identification of economy and efficiency recommendations whose implementation are solely the responsibility of program management, the follow-up activity for these reviews is comprised of periodic status reports. Therefore, please submit a status report on the implementation of the recommendation to OAS by February 16, 2018. The necessity of any further reports will be determined at that time.

We greatly appreciate the cooperation and assistance provided by ORIM's personnel. If you have any questions, please contact me at 376-5061, or Lucy Wong, Management Auditor, at 376-5049.

Gregg Gunderson

Gregg Gunderson, MBA, CIA, CISA
Manager, Office of Audit Services

Attachments

Staff: Lucy Wong, Management Auditor
       Victoria LaTour, Management Auditor

cc: Daniel C. Kim, Director
      Jeffrey McGuire, Chief Deputy Director
      Miles Burnett, Deputy Director, Administration Division
      Karen Bianchini, Manager, Claims and Insurance, ORIM
      Chris Verdin, Manager, Claims Unit, Claims and Insurance, ORIM

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To: Kim Hunt, Chief
Office of Risk and Insurance Management
707 3rd Street, 1st Floor
West Sacramento, CA 95605

From: **Department of General Services**
Office of Audit Services

Subject: **Audit Report: Operational Review**

This report presents the results of our operational review of the Office of Risk and Insurance Management (ORIM). This audit was authorized within the Office of Audit Services (OAS) Audit Plan. The objective of our audit was to review the operations, programs, functions, and activities performed by ORIM to determine whether its current systems of operational control could be improved. Our review was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Although overall we concluded that ORIM has established adequate and effective systems of operational control, we identified an area for improvement within operations administered by the Claims Services Program. Specifically, as discussed under the Review Results section of this report, ORIM's Systema Information Management System (SIMS) is not functioning as designed; as a result, ORIM's risk analysts are not consistently querying the Insurance Services Office, Inc. (ISO), a nationwide database, to identify repeat bodily injury claimants. This activity is an important tool in identifying potential fraudulent claims.

During our review we also identified another matter requiring attention that we discussed with ORIM's management but did not include in this report. Specifically, ORIM is not incorporating DMV Form SR 19C, "Financial Responsibility Information Request," into its recovery process. ORIM can submit Form SR 19C to the Department of Motor Vehicles (DMV) to obtain insurance information from "at-fault" parties. The Form would assist in the recovery process by attempting to retrieve insurance information from unresponsive "at-fault" parties. We recommend that ORIM incorporate this form in its recovery process.

BACKGROUND

ORIM provides risk management and insurance services to state and other public entities on an ongoing or project-specific basis. The goal of the office is to assist agencies in managing exposures to accidental losses arising from general operations, employment, motor vehicles, property ownership, and risk financing. ORIM services include insurance procurement, claims adjusting, health and safety training, contract management, consulting on insurance requirements in contracts, and other risk management related services.

Various health, safety and wellness activities are also provided to Department of General Services (DGS) employees only. Additionally, ORIM provides emergency planning to DGS employees to ensure they are not only kept aware of preparedness issues, but are in a state of readiness should any anticipated or unforeseen emergency or disaster occur.

The office includes the following programs: Claims Services, Emergency Management, Insurance Services, Natural Gas Services, and Statewide Health and Safety.

In brief, the Claims Services Program provides automobile liability self-insurance coverage to the state's owned or leased motor vehicles, provides vehicle damage recovery services (subrogation) to the state agencies, and handles general liability claims and social services claims (foster care liability). The Emergency Management Program provides assistance to federal, state and local government, vendors, and the public in emergency operations concentrating on emergency acquisitions, facilities and critical assets, etc. The Insurance Services Program procures insurance and provides risk management consulting services. The Natural Gas Services Program is the primary supplier of natural gas in California to state and local governments. The Statewide Health and Safety Program provides safety education and training to assist DGS offices and other public agencies in complying with safety mandates.

SCOPE

We selected ORIM's Claims Services Program as the primary program for review as it uses the majority of ORIM's financial resources. Upon completing a preliminary survey of the Claims Services Program's operations, we selected automobile liability self-insurance coverage and automobile recovery as the primary operations for in-depth review as the two operations constitute the Claims Services Program's primary functions and represent the greatest inherent risk in the program. In addition, because of the significant collection and disbursement functions performed by ORIM, we performed a review of ORIM's systems of internal control for collections and disbursements. We also briefly reviewed the Motor Vehicle Insurance Account (MVIA) premium assessment to evaluate the reasonableness of the calculation methodology. Finally, we assessed whether ORIM has met its strategic plan goals and objectives.

METHODOLOGY

To determine if ORIM established an adequate and effective system of operational control, we performed a preliminary survey of its operations. The results of this survey provided sufficient information to identify the previously discussed activities for in-depth testing during our audit fieldwork. Review of these activities included the following:

- reviewing policies and procedures;
- reviewing prior audit findings and perform follow-up activities;
- examination of claim files including paper files and electronic files in the Systema Information Management System (SIMS) database;
- evaluation of systems of internal control for disbursements and collections;
- conducting interviews of appropriate mangers and staff;
- performing analyses of management and billing systems;
- reviewing ORIM's strategic planning goals and objectives for FY 2013 – 2016;
- performing other tests as deemed necessary.

REVIEW RESULTS

We concluded that ORIM has established adequate and effective operating policies and procedures which provide reasonable assurance that auto liability claims are verified for validity; processed properly and timely; reviewed and approved by appropriate level of claim management; and supported by sufficient documents. We also observed that reasonable efforts are made to collect on subrogation claims and that the process is conducted in accordance with the criteria in ORIM's Claims Services Program Manual.

We identified the following area for improvement in the processing of auto liability claims. The recommendation presented is to aid management in improving systems of operational control.

REVIEW FOR REPEAT CLAIMANTS

The database of a nationwide company, Insurance Services Office, Inc. (ISO) was not consistently used to check for repeat bodily injury claimants. Specifically, our judgment sample of 20 auto liability claims reported to ORIM within the last five years revealed 14 claims with bodily injury. Our review showed that ORIM did not query ISO in 10 of these 14 claims to determine if the case involved a repeat claimant. Therefore, this important tool was not used by the risk analysts to identify repeat claimants and potential fraudulent claims.

The Claims Services Program Manual requires that ISO database be queried for bodily injury claims to identify repeat claimants. ORIM's Claims Services Program Manager told us that ORIM's system (SIMS) was initially designed to automatically submit claim information to ISO once risk analyst keyed in the reserve amount for bodily injury in the system, and ISO would search and provide for bodily injury claim histories that matched the claimant. However, the system has not been functioning as designed since ORIM

started using it in 2014. As a result, the risk analysts have had to manually submit a request to ISO for claim history reports; yet, ORIM's policies and procedures did not ensure that its risk analysts manually sent the request.

By the end of our field work, ORIM's Claims Services Program Manager informed us that SIMS is now automatically generating ISO reports when its risk analysts complete the following three steps in the system: 1) bodily injury reserve set at $1 or higher; 2) coverage must be selected; and 3) loss location description identified. However, ORIM's current policies and procedures do not ensure the performance of these three steps by the risk analysts for all bodily injury claims.

Recommendation

Develop, implement, and enforce written policies and procedures that ensure ISO database is queried for bodily injury claims to identify repeat bodily injury claimants.

CONCLUSION

The issues presented in this report should be addressed to assist in improving ORIM's operational policies and procedures. It should be noted that when advised of areas for improvement during our audit fieldwork, ORIM's management indicated that immediate action would be taken to address our concerns. This provides an indication of management's significant commitment to improving operational policies and procedures.

We greatly appreciated the cooperation and assistance provided by ORIM's personnel.

If you need further information or assistance on this report, please contact me at 376-5061, or Lucy Wong, Management Auditor, at 376-5049.

Gregg Gunderson

Gregg Gunderson, MBA, CIA, CISA
Manager, Office of Audit Services

Staff: Lucy Wong, Management Auditor
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cc: Daniel C. Kim, Director
         Jeffrey McGuire, Chief Deputy Director
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         Karen Bianchini, Manager, Claims and Insurance, ORIM
         Chris Verdin, Manager, Claims Unit, Claims and Insurance, ORIM

M E M O R A N D U M

DGS
GENERAL SERVICES

Date: August 9, 2017

To: Andy Won, Chief (A)
                    Office of Audit Services

**From:**   **Department of General Services**
                    Office of Risk and Insurance Management
                    707 Third Street, First Floor
                    West Sacramento, CA. 95605

Subject: **AUDIT REPORT: OPERATIONAL REVIEW**
                    ORIM RESPONSE

We appreciate the input that was provided to our Claims Unit in your recent audit.   As a result, we have immediately implemented changes.   Please see below for the specifics.

Thank you and your team for conducting a thorough review of our program.

Sincerely,
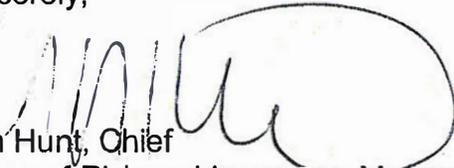
Kim Hunt, Chief
Office of Risk and Insurance Management
(916) 376-5271

DRAFT AUDIT REPORT: OPERATIONAL REVIEW COMMENTS

REVIEW FOR REPEAT CLAIMANTS

Develop, implement and enforce written policies and procedures that ensure the ISO database is queried for bodily injury claims to identify repeat bodily injury claimants.

This is a tool that had been used regularly prior to the implementation of our new database system in November of 2014. This is a module add-on that we found had not been functioning correctly. As recent as the close of your audit, we thought that the automatic function was finally activated. However, we found that it was creating several error messages per each inquiry which created extra work for staff. As a result, we have had to revert back to the individual Analyst requesting the ISO information.

Please refer to the step-by-step procedure that has since been implemented:

- **ISO Reporting:**
  - *All Auto Liability claims that contain a bodily injury reserve must utilize the ISO reporting module*
  - *The analyst will request an ISO report immediately when a bodily injury reserve is initially set, then every six (6) months thereafter, or whenever new information is provided to the analyst (e.g.: Litigation, new attorney, new medical provider, etc.)*
  - *For the ISO module to work correctly within SIMS, the analyst needs to perform the following steps:*
  - *The "Loss Location" and "Loss Location Description" fields located under the "Claim" tab within the "Claim Maintenance" navigation button must be filled in correctly*
  - *Enter the data under both the Street Address Line and City Name Line correctly*
  - *Bodily Injury must be selected as a "Coverage Type" located under the "Coverage" tab within the "Claim Maintenance" navigation button*
    - *Claimant Type must be "Auto Liability"*
    - *Bodily Injury reserves must be set at $1.00 or greater*
  - *The analyst will order an ISO Report by selecting the "ISO Resubmission Request" Notepad Type drop down within the "Notepads" navigation button*
  - *SIMS will then return an email back to the analyst within 24 hours stating that there is an ISO Match Report or an ISO Error Report*
  - *ISO Reports are to be reviewed each time one is received by the analyst through the Notepads navigation button. The analyst will document the findings of the ISO report through a Notepad data entry*
  - *To stop an ISO Report from running, the analyst will select the "ISO Stop" Notepad Type drop down within the "Notepads" navigation button*

We are hopefully that in future upgrades to our system, the automated function will work as anticipated. Until then, we will continue to utilize the manual process.

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OFFICE OF RISK AND INSURANCE MANAGEMENT
OPERATIONAL CONTROL REVIEW

EVALUATION OF ORIM'S RESPONSE

We have reviewed the response by the Office of Risk and Insurance Management (ORIM) to our draft report. The response indicates that appropriate actions are being taken to address our recommendations. We appreciate the efforts taken or being taken by ORIM's personnel to improve operational controls. The promptness of these efforts continues to disclose their significant commitment to improving operating policies and procedures.