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ITEM NO. 2

Date: March 4, 2009

To: Audit and Finance Committee

From: Gary Ray, City Auditor *GR*

Subject: City Attorney - Risk Management Process

Cc: Debbie Spinner, City Attorney

Pursuant to the Council-approved audit plan, the City Auditor's Office has completed an audit of the City Attorney Risk Management Process.

The purpose of this letter is to transmit the report to the Audit and Finance Committee. The report package consists of the report, one Corrective Action Plan (CAP), and the Management Response.

We would like to thank the City Attorney management and staff for their cooperation, professionalism, and assistance throughout the audit process.

If you have any questions please feel free to contact me at x3210 or Jerry Faccone at x2403.

AUDIT REPORT

Department: City Attorney's Office

Audit Subject: City Attorney Risk Management Process

Date Completed: December 12, 2008

Report Date: January 14, 2009

Audit Period: August 2005 – July 2008

Purpose: The objectives of the audit were to:

- Determine the efficiency, effectiveness and reliability of the Risk Management function.
- Determine the adequacy of policies, procedures and controls involved in the Risk Management process.
- Determine if claims are properly documented, processed, approved and paid in a timely manner.

Scope: To accomplish this audit we:

- Reviewed the Risk Management workflow process and applicable internal policies and procedures.
- Reviewed the system of internal controls over claim activity.
- Performed detailed testing of claim activity to determine if the Risk Management function is operating efficiently and effectively.
- Made inquiries and performed procedures to gain assurance that all claims and applicable information are recorded in the Riskmaster system.
- Reviewed the adequacy of the Property and Public Liability Trust Fund and the City's excess insurance coverage.

Background: The City Attorney's Office is responsible for the Risk Management function. Section 610 of the Mesa City Charter authorizes the City to establish the Property and Public Liability Trust Fund to maintain a reserve for self-insurance purposes. The Property and Public Liability Trust Fund was established in 1977 and is funded through the General Fund. From this Trust Fund, the City pays all costs resulting from liability claims, including settlements/judgments, attorneys' fees, litigation costs and insurance premiums.

Mesa's current liability coverage is \$2 million self-insured retention (SIR) with excess liability coverage of \$35 million. Individual claims up to the SIR limit are paid out of the Property and Public Liability Trust Fund. Claims in excess of the SIR are submitted to the City's excess liability carriers. During the three year audit period, there was an average of over 300 claims filed against the City with payments for claims averaging \$2 million per year.

Comments: The audit resulted in one finding that is detailed in the attached Corrective Action Plan along with recommendations for improvement.

Conclusion: The City Attorney's Risk Management function is reliable and internal controls are working to safeguard the process. There is an acceptable audit trail for claim documentation, processing, monitoring, approval, and payment. Departmental policies and procedures are comprehensive and are being followed by the City Attorney's staff. The City's Property and Public Liability Trust Fund and excess insurance coverage appear sufficient to cover claim liability.

Corrective Action Plan

Audit Subject: City Attorney Risk Management Process

January 14, 2009

Title: Risk Management Claim Numbers

Observations: Lack of accountability over Risk Management claim numbers in the Riskmaster database.


Comments: The Riskmaster system is utilized for the processing of both the City Attorney's Risk Management claims and the City's Workers' Compensation claims. When a claim is set up in Riskmaster by either department, the system assigns the next sequential number.

Over 2,000 claims were assigned during the audit period. A test of the numerical sequence of claims revealed 40 numbers that could not be located. According to the Riskmaster vendor, the missing claim numbers can only result from deletions by authorized individuals at the City and the system does not have the capacity to keep track of such deletions.

City employees with security permission to delete claims performed this function when claims were incorrectly entered in duplicate. Documentation was provided during the audit for the deletion of 5 claims but was not retained for the balance of the deletions. Claims should not be deleted for any reason. Such an action compromises the integrity of the Risk Management process.

Recommendations: Claims entered twice in error should be flagged as duplicates in the Riskmaster database. When incorrect information such as a date, the name of a person, or an amount must be changed, the corrections should be recorded in an edit log and an explanation should be entered in the "Comments" section of the specific claim in the Riskmaster database.

We recommend that the City's Information Technology Department remove the ability of City personnel to delete claims from the Riskmaster system.

To: Gary Ray
From: Debbie Spinner 
Date: February 27, 2009
Subject: Risk Management Audit

I appreciate the work that your office has done and the comments and recommendations you've provided. The City Attorney's office will work with your office to ensure that the recommendations are fulfilled.

Below are the changes we intend to implement or have already implemented.

RECOMMENDATIONS AND RESPONSES

1. **Recommendation:** The city's IT department should remove the ability of city personnel to delete claims from Risk Master system.

Response: Michael Gaborick, in Information Technology, has informed us that the system has already been changed to prevent any city personnel from deleting claims from the Risk Master system. This was accomplished on or about February 19, 2009.

The City Attorney's office will also work with IT to ensure that all claims that are voided in the system are properly flagged to avoid future data entry errors. Specifically, claims will be listed as "open" "closed" or "void". We will also create a new "void" option for the method used to close a claim. This will allow us to clearly and easily identify all claims that have been voided due to entry error.

2. **Recommendation:** Create an edit log to document all changes made to the Risk Master database.

Response: The City Attorney's office has created an edit log which be used to document all changes made to the Risk Master database. For example, if a claim is entered and subsequently the information needs to be changed (for example a change of address), the changes will be made in Risk Master and these changes, along with an explanation of why the changes were necessary, will be documented in the edit log. This will allow the auditor to see all changes made to the Risk Master database during the review period.

RISKMASTER EDIT LOG

Date	Event No.	Claim No.	Information Changed	Reason for Change
2/26/2009	EV2009020928	N/A	Event voided.	Duplicate event.
2/26/2009	EV2008020273	GC013739	Adjustor, litigation, and defendant screens updated.	Lawsuit filed. Case reassigned to attorney.
2/27/2009	EV2008020295	GC013736	Check voided.	Addressee information entered incorrectly.