

# COUNTY AUDIT DEPARTMENT

**REPORT # 333**

*An Audit of:*

**AUTO AND GENERAL LIABILITY CLAIMS**

**AUGUST 16, 2017**



*Pat Frank* INTEGRITY. TRANSPARENCY. ACCOUNTABILITY.

CLERK OF COURT & COMPTROLLER • HILLSBOROUGH COUNTY, FLORIDA

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August 16, 2017

The Honorable Stacy R. White, Chairman  
The Honorable Victor D. Crist  
The Honorable Ken Hagan  
The Honorable Al Higginbotham  
The Honorable Pat Kemp  
The Honorable Lesley “Les” Miller, Jr.  
The Honorable Sandra L. Murman

Dear Chairman White and Commissioners:

The Audit Team performed an audit of the Auto and General Liability Claims process (Audit Report # 333, dated August 16, 2017). Responses to the Audit Team’s recommendations were received from the Director of Management and Budget and have been included in the Report after each audit comment and recommendation.

The purpose of this Report is to furnish management independent, objective analysis, recommendations, counsel, and information concerning the activities reviewed. It is not an appraisal or rating of management.

Although the Audit Team exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

The Audit Team appreciates the cooperation and professional courtesies extended to the auditors by the Manager and personnel of Risk Management and Safety as well as Human Resources Management during this audit.

Sincerely,

Heidi Pinner, CIA, CISA, CRMA, CFE  
Director of County Audit

CC: Mike Merrill, County Administrator  
Bonnie Wise, Chief Financial Administrator  
Tom Fesler, Director, Management & Budget  
Kevin Brickey, Management & Budget Office  
Tim Simon, Deputy Comptroller

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## EXECUTIVE SUMMARY

### BACKGROUND INFORMATION

Hillsborough County is exposed to various risks of loss related to injuries to employees; torts; thefts of, damage to, and destruction of assets; errors and omissions; and natural disasters. The County is self-insured against automotive and general liability claims with limited liability per Section 768.28, Florida Statutes, of \$200,000 per person and \$300,000 per occurrence. The Board of County Commissioners (BOCC) has authorized a commercial third-party administrator (TPA), Gallagher Bassett Services, Inc., to administer the County's automobile and general liability claims payments.

Risk Management monitors the auto and general liability claims process. Risk Management determines which claims are assigned to the TPA to investigate, and which are investigated and processed internally by the County. The TPA investigates the claims assigned to them and recommends what payment should be made for the claim. Risk Management monitors claims in the TPA claim system and reviews and approves payment recommendations. Settlement approval is governed by Board policy and includes approval dollar thresholds for Risk Management, the Claims Committee or the BOCC. Risk Management, along with Human Resources Management, reviews claims administration invoices from the TPA for accuracy and compliance with the contract.

### OBJECTIVE

The objective of the audit was to determine whether or not Risk Management has a reasonable level of assurance that the design and implementation of the TPA's internal controls over claims processing are adequate and effective.

### SCOPE

The audit was conducted in conformance with the *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that County Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit comments and conclusions based on the audit objectives. County Audit believes that the evidence obtained provides this reasonable basis.

The audit period covered automobile and general liability claims closed within the period of August 1, 2016 through February 23, 2017. The audit period for claims administration invoices covered the three most recent invoices paid at the time of testing. This included invoices from March 31, 2016 to October 20, 2016.

## OVERALL EVALUATION

Risk Management, as well as Human Resources management, were responsive to the Audit Team's inquiries and provided thorough information when requested. Data and other information were provided in a prompt and courteous manner. The Audit Team encountered knowledgeable and dedicated employees during the course of the audit.

The following table summarizes the audit comments and corresponding cross references to the page number where the audit comment details can be found in this Report.

AUDIT COMMENT	CONCLUSION OF OBJECTIVE	PAGE
1	An opportunity exists to improve contract compliance over claims administration services for auto and general liability claims.	3
2	There is an opportunity to improve controls over the claims administration services invoice review & approval process.	5

## OPINION

The overall control environment relative to managing compliance with the auto and general liability claims contract and associated processes is at a formal (defined) maturity level. This means that management has developed processes and controls which reasonably ensure claims activity is adequately controlled and in compliance with the contract. In addition, controls over the review of claims administration invoices are adequate and effective. Addressing the opportunities identified in this Report will enhance the control structure over contract compliance and invoicing processes.

The exit conference was held on July 13, 2017.

Other minor concerns not included in this Report were communicated to management and/or corrected during fieldwork.

## AUDITED BY

Heidi Pinner, CIA, CFE, CISA, CRMA, Director of County Audit

Ben Everett, CPA, CIA, CFE, Audit Manager

Greg McCullough, CPA, CIA, CFE, Senior Internal Auditor

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## AUDIT COMMENTS & RECOMMENDATIONS

### AUDIT COMMENT 1

**An opportunity exists to improve contract compliance over claims administration services for auto and general liability claims.**

The objective was to determine whether or not the TPA is in compliance with the contract to provide claims administration services for auto and general liability claims.

#### Liability Claims Testing

The Audit Team identified the internal control processes used by Risk Management to ensure the TPA provides claim administration services for auto and general liability claims in compliance with the contract. Based on this information, the Audit Team selected four attributes for testing. These attributes included:

1. Whether a claim was assigned to the TPA for processing,
2. Evidence of the TPA processing the claim,
3. Risk Management approvals of settlements and payments, and
4. Documentation of expenses and payments for the claim in the TPA claim system.

All liability claims are entered into the TPA claim system, but not all claims are assigned to the TPA for them to investigate and process. Some claims are processed internally by Risk Management and the County Attorney's office. A claim must be assigned to the TPA by Risk Management for the TPA to process the claim and charge a fee to the County for processing the claim. All payments processed by the TPA must be approved. The Audit Team used information from the TPA's claim file system (RISX-FACS) for testing of the attributes as well as records maintained by Risk Management.

The Audit Team selected a random sample of 25 out of 48 claims closed within the period August 1, 2016 to February 23, 2017, that were processed by the TPA.

#### Results of Testing

1. All 25 claims were assigned to the TPA for processing by Risk Management.
2. All claims had evidence in the TPA claim system that the TPA worked on or investigated the claim.
3. Of the 25 claims tested, 9 had claim payments that were made to claimants. One of the nine did not have documentation of the payment's approval by Risk Management. Risk Management and the County Project Manager indicated that a verbal approval had occurred for this payment.
4. Of the 25 claims selected, ten claims had a claim amount, including one pending subrogation payment. All ten claims had documentation in the TPA claim system to support the dollar amount of the claim payment.

### Processing of Checks Issued by TPA

As part of processing a liability claim, the TPA issues checks. The checks are for claim expenses or settlements pertaining to liability claims assigned to the TPA. As part of monitoring the liability claims of the contract, Risk Management receives a list of pending checks twice per week to review and approve for issuance by the TPA. Risk Management reviews the pending checks and sends an approval email to the County Project Manager indicating which checks are approved for issuance. The County Project Manager sends the email approval of liability and workers' compensation checks to the TPA.

The TPA also sends a weekly final list of actual checks issued for the week to Risk Management. Risk Management does not confirm that each check listed on the final list of actual checks was approved. This could be done by comparing the weekly final list of actual checks to the approval emails and related lists of pending checks for the week. Absent this verification, there is a risk that an unapproved liability claim check could be issued, processed by the bank, and not be detected on a timely basis.

### **RECOMMENDATION**

Risk Management should consider:

- 1) Formalizing a procedure for claim payment approvals, ensuring verbal approvals are not used, and maintaining documented evidence of the approvals sent to the County Project Manager.
- 2) Establishing a control to reconcile the checks actually issued against those approved on the list of pending checks.

### ***CLIENT RESPONSE***

*Concur*

### ***CORRECTIVE ACTION PLAN***

- 1) *Client will notify the Contract Manager via e-mail, indicating the check register dates that all pending checks are approved for release.*
- 2) *Client will open and review the weekly Gallagher Bassett Payment Register report on the following week and verify correct payment.*

### ***TARGET COMPLETION DATE***

*8/11/2017*

**AUDIT COMMENT 2****There is an opportunity to improve controls over the review & approval process for claims administration services invoices.**

The objective was to determine whether or not invoices submitted by the TPA for liability claims administration services were in compliance with the fee rates in the contract.

The TPA invoices the County for liability claims administration services. The fees are billed on a per claim basis depending on four types of liability claims. These include auto liability-bodily injury, auto liability-property damage, other than auto liability (general liability) - bodily injury, and other than auto liability (general liability) - property damage.

The Audit Team selected the three most recent invoices paid by the County to the TPA to test for compliance with the contract. The invoice dates of these three invoices ranged from March 31, 2016 to October 20, 2016, and are not submitted on regular intervals by the TPA. For these three invoices, the Audit Team determined whether or not the TPA was charging the proper contract fee rates for claims the County assigned to them to work. In addition, the Audit Team selected a sample of liability claims on the invoice and verified that County Risk Management assigned the claim to the TPA to work the claim. The Audit Team also traced the claim number billed to the TPA claim system to verify its existence.

**Results of Testing**

For the three invoices tested, all three were paid at fee rates that were in compliance with the fee rate in the County's agreement with Gallagher Bassett. However, this was after each invoice was corrected by the Project Manager in Human Resources prior to payment. Gallagher Bassett is billing liability claim rates on the invoices that are slightly different than the proper contract rates which requires manual correction by the Project Manager.

On the three invoices tested, 12 liability claims were selected for testing to determine whether the claim was assigned to the TPA. All liability claim numbers were traced to and found as valid claim numbers in the TPA claim system. One of the 12 liability claims (8%) was not assigned to the TPA by Risk Management. This claim resulted in an overbilling of \$638.21 to the County.

**RECOMMENDATION**

To improve controls over the claims administration invoice review and approval process, management should consider:

- 1) Requiring the TPA to ensure that the proper contract rate is billed to the County for claims administration services.
- 2) Determining the desired frequency or timing of invoice submission by the contractor for claims administration services and ensure it is reflected in the contract.



- 3) Formalizing a procedure for assigning claims to the TPA, including implementing a control to identify and remove liability claims that have not been approved for assignment. In addition, County Management should request reimbursement of the overbilling of \$638.21 from the TPA.

***CLIENT RESPONSE***

*Concur*

***CORRECTIVE ACTION PLAN***

- 1-2) *Hillsborough County is currently reviewing the final bids from two vendors for Third Party Administration Services, including Gallagher Bassett. Issues involving billing errors and frequency of billing will be addressed in the new agreement with the selected vendor.*
- 3) *Assignment of new claims will be accomplished via e-mail to the TPA, with copies to the Insurance Fiscal Manager and the Contract Manager. Reimbursement of the overbilling of \$638.21 has already been requested.*

***TARGET COMPLETION DATE***

*Estimated 10/1/2017 or Board approval of new TPA agreement.*