



CITY OF SAN ANTONIO

P.O. Box 839966
SAN ANTONIO TEXAS 78283-3966

March 12, 2021

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SUBJECT: Follow-Up Audit of Risk Management Liability Claims Process

Mayor and Council Members:

We are pleased to send you the final report of the Follow-Up Audit of Risk Management Liability Claims Process. This audit began in September 2020 and concluded on February 2021. Management's verbatim response is included in Appendix B of the report. The Office of Risk Management management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio

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CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR



Follow-Up Audit of Office of Risk Management

Liability Claims Process

Project No. AU20–F03

March 12, 2021

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted a follow-up audit of the recommendations made in the prior audit of Risk Management Liability Claims Process dated September 19, 2019. The objective for this follow-up audit is:

Determine if recommendations made in the prior audit of Risk Management Liability Claims have been effectively implemented.

We determined that the Office of Risk Management has successfully implemented adequate controls to address the prior audit recommendations. Specifically, the Office of Risk Management has implemented a process to manage access to the Valley Oaks System (VOS) that includes granting, changing, delimiting, and monitoring access.

Risk Management implemented controls that strengthen the control environment for claims payments. Risk Management has implemented controls including proper review, authorization, and document support of liability claims. Risk Management has also eliminated the practice of allowing departmental staff to physically pick up claim checks.

No findings were identified while conducting the audit. We make no recommendations to the Office of Risk Management; consequently, no management responses are required. Risk Management acknowledgement of these results is in Appendix B on page 7.

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Background

On September 19, 2019 the Office of the City Auditor issued an audit of the Office of Risk Management Liability Claims Process. The objective of the audit was as follows:

Determine if in-house liability claims are managed in accordance with internal policies and State statutes.

The Office of the City Auditor concluded that Risk Management is managing in-house liability claims in accordance with internal policies and State statutes. Internal policies are consistent with State statutes. Additionally, Risk Management is establishing an adequate reserve for liability claims. Risk Management is also producing the monthly reconciliation and performance measure reports. Finally, Risk Management is adhering to the regulatory requirements in the Texas Tort Claims Act and the City Charter.

However, we identified an area in need of improvement. Risk Management does not have a documented process in place to control user access to VOS, the Valley Oaks System.

During the original audit, we became aware of a potential fraud within the claims process. As a result, we conducted additional analysis which resulted in the following recommendations to strengthen the control environment for the claims approval and payment process:

- Use of manual check pick-up should be limited and require management approval. Checks should be mailed to the payee directly from Finance.
- Strengthen controls surrounding the use of electronic signatures.
- Increase segregation of duties by requiring someone outside of the individual claim processing to provide final review and approval of payments.
- Develop controls to periodically review incidents at a claim aggregate limit amount in addition to an individual payment amount.

Risk Management agreed with the conclusions and developed action plans to address audit recommendations.

Audit Scope and Methodology

The audit scope was limited to the recommendations and corrective action plans made in the original report for the time frame from October 2019 to September 2020.

We interviewed staff regarding the liability claims process, liability claims payments, and VOS access. To gain a better understanding of the liability claims process we reviewed the Liability Claims Administration Procedures Manual, the Texas Tort Claims Act, and the relevant sections of the City Charter.

Testing criteria included the Liability Claims Administration Procedures Manual, Client Service Instructions Manual, the Texas Tort Claims Act, the City Charter, and Administrative Directive 7.8d Access control.

We reviewed the newly implemented procedures to monitor for appropriate user access control to VOS. We also reviewed if the process of manually picking up checks has improved.

We relied on computer-processed data in the SAP system and VOS to perform the claims payment testing. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included obtaining the population of claim payments from VOS, tracing the claim payment into SAP, reviewing the associated approvals, and obtaining and reviewing the attached supporting documentation. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

In accordance with generally accepted government auditing standards, we assessed and documented the significance of internal control to the extent necessary to address audit objectives. From our assessment, we identified the following internal control components and principles as significant within the context of this audit.

- Control Environment
 - Commitment to competence
 - Organizational Structure
- Control Activities
 - Policies and procedures
 - Authorizations and approvals
- Risk Assessment
 - Risk identification and analysis
 - Process-level objectives
- Monitoring
 - Ongoing monitoring

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

Prior Audit Recommendations and Status

A. VOS User Access

Prior Recommendation:

The Director of Risk Management should implement a process to manage access to VOS that includes granting, changing, delimiting, and monitoring access.

Status: Implemented

Risk Management implemented a process to manage and monitor user access to VOS in accordance with Administrative Directive 7.8d. This process is documented in the Client Service Instructions. We obtained the entire population of VOS changes for FY2020 which included granting, changing, delimiting, and monitoring access and determined that Risk Management has implemented the newly adopted process for managing user access. In addition, we reviewed the user access matrix received from Tristar and determined that user roles to VOS were appropriate.

Recommendations

None

B. Additional Recommendations

Prior Recommendations:

Recommendations to strengthen the control environment for the claims payment process:

- Use of manual check pick-up should be limited and require management approval. Checks should be mailed to the payee directly from Finance.
- Strengthen controls surrounding the use of electronic signatures.
- Increase segregation of duties by requiring someone outside of the individual claim processing to provide final review and approval of payments.
- Develop controls to periodically review incidents at a claim aggregate limit amount in addition to an individual payment amount.

Status: Implemented

Risk Management has eliminated the practice of physically picking up checks. We conducted an analysis of payments for fiscal year 2020 for potential manual check pick up. We determined that Risk Management did not use a manual check pick up for any liability claim payments.

Risk Management has implemented controls that strengthened the claims payment process, which includes proper review, authorization, and document support of claims. We tested a random judgmental sample of 47 claims expenses totaling \$1.4 million dollars, for appropriate approvals, supporting documentation, and management review. We determined all 47 claim expenses were appropriately reviewed, approved, and had supporting documentation. We reviewed each claim had the correct Vendor Request for Payment form and that the proper authority approved the payment in SAP.

Recommendations

None

Appendix A – Staff Acknowledgement

Buddy Vargas, CIA, CFE, Audit Manager
Hedei Newcomb, CFE, Auditor in Charge
Elizabeth Reyes, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

February 23, 2021

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
San Antonio, Texas

RE: Management's Acknowledgement of its Review of Follow-Up Audit of Risk Management Liability
Claims Process

The Office of Risk Management has reviewed the audit report and provided its comments to the auditors. As there are no recommendations for management, no management responses are required.

The Office of Risk Management:

- ☒ Fully Agrees
- ☐ Does Not Agree (provide detailed comments)

Sincerely,

Debra M. Ojo

Debra Ojo
Director
Office of Risk Management

Ben Gorzell

Ben Gorzell
Chief Financial Officer
City Manager's Office

February 25, 2021

Date

3/4/2021

Date