



# CITY OF SAN ANTONIO

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

August 21, 2012

**Julián Castro**  
Mayor

**Diego M. Bernal**  
Councilman, District 1

**Ivy R. Taylor**  
Councilwoman, District 2

**Leticia Ozuna**  
Councilwoman, District 3

**Rey Saldaña**  
Councilman, District 4

**David Medina, Jr.**  
Councilman, District 5

**Ray Lopez**  
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Councilman, District 7

**W. Reed Williams**  
Councilman, District 8

**Elisa Chan**  
Councilwoman, District 9

**Carlton Soules**  
Councilman, District 10

SUBJECT: Audit Report of Risk Management Division, Human Resources Department  
Liability Insurance Fund

Mayor and Council Members:

We are pleased to send you the audit report of the Liability Insurance Fund. This audit began in February 2012 and concluded with an exit meeting with department management in July 2012. Management's verbatim response is included in Appendix B of the report. The Human Resources Department should be commended for its 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

Distribution:

Sheryl L. Sculley, City Manager  
Ed Belmares, Assistant City Manager  
Ben Gorzell, Chief Financial Officer  
Joe Angelo, Director, Human Resources Department  
Michael D. Bernard, City Attorney  
Martha Sepeda, First Assistant City Attorney  
Leticia M. Vacek, City Clerk  
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Frances A. Gonzalez, Assistant to the Mayor, Office of the Mayor  
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Stephen S. Penley, Audit Committee Member

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**CITY OF SAN ANTONIO**  
**OFFICE OF THE CITY AUDITOR**



Audit of Risk Management Division, Human Resources Department

Liability Insurance Fund

Project No. AU12-019

August 21, 2012

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

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## Executive Summary

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This audit project was added to the FY 2012 annual audit plan at the request of Council members. As a result, we conducted an audit of the Liability Insurance Fund administered by the Risk Management Division, Human Resources Department. The audit objectives, conclusions, and recommendations follow:

### **Are expenditures from the Liability Insurance Fund properly authorized and supported?**

Yes, expenditures from the Liability Insurance Fund were properly authorized and supported. However, a court ordered judgment for \$175,000 was not approved by City Council as required by the current policy. The City Attorney did not consider the approval necessary in this instance because it was a court ordered judgment, which must be paid regardless of the City's approval process. Additionally, we determined that expenditures directly related to claim settlements were appropriate.

### **Is the Liability Insurance Fund adequately funded?**

Yes, the Liability Insurance Fund is adequately funded. We determined that the appropriate personnel are involved in the valuation of the liability of unpaid claims, annual budgeting of claims, and funding for the fund. It was also determined that the general liability account was sufficiently budgeted.

As we documented the claims process, we observed no formal status of claim activity communicated to City Council. City Council is notified/briefed only of claims with settlements over \$50,000.

We recommend the Director of Human Resources:

- Coordinate with the City Attorney and amend the approval process for payments mandated by court order.
- Develop summary claim activity reports and provide to City Council on a regular basis.

Management has agreed with all recommendations and has developed an appropriate action plan. Human Resources and City Attorney Management's verbatim responses are in **Appendix B** on page 7.

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## Background

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The Office of Risk Management is a division of the Human Resources Department. Risk Management is composed of three sections, Workers’ Compensation, Liability, and Safety & Loss Prevention. The Liability Section manages claims brought against the City of San Antonio for damage to property and for personal injuries.

The City passed an ordinance in April 1996, which established “The City of San Antonio Defined Self-Insurance and Risk Management Program”. This program established policies, rights and duties related to the administration of claims against the City.

The Risk Management Division is responsible for the administration of claims and operates in conjunction with the City Attorney’s Office in matters of litigation. Additionally, the City utilizes the services of TRISTAR Risk Management, a third party administrator (TPA), to investigate, evaluate, and manage all third-party liability claims directly with the claimant.

The program also defines thresholds for the authorization of settlement of claims and lawsuits as shown in **Table 1**.

### Claim Settlement Authorization Levels

Settlement Amount	Authorization Level Required
≤ \$2,500	TPA w/ Risk Management review
\$2,500.01 - \$15,000	Risk Management and City Attorney’s Office
\$15,000.01 - \$50,000	Claims Board <sup>1</sup>
> \$50,000	City Council

Table 1

Annually, the number of closed Auto and General Liability Claims against the City has averaged 463 and 720, respectively, over the last 5 years. **Figure 1** illustrates the total Auto and General Liability (GL) claims closed in fiscal years 2007 through 2011.

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<sup>1</sup> Claims Board consists of City Attorney, Risk Manager, Finance Director, Assistant City Manager or their designees.

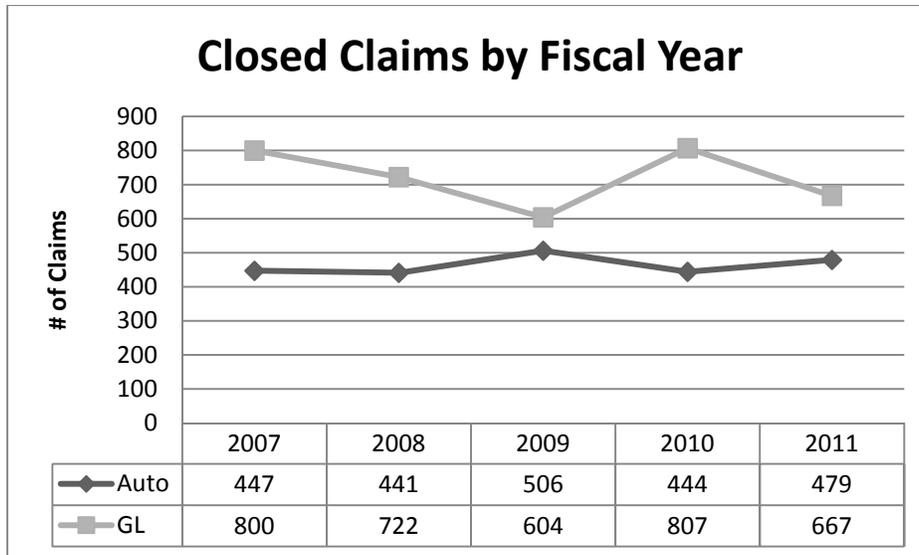


Figure 1

### Liability Insurance Claim Funding

An actuarial firm, currently Rudd and Wisdom, Inc., conducts an analysis that determines the valuation of the potential liability of unpaid claims, which as of September 30, 2011 is valued at \$21,544,573. In addition, the annual budget of potential claims is determined by estimating amounts of potential claim settlements, and litigated claim settlements by Risk Management and City Attorney’s Office respectively. The administrative costs are also included for both estimates. Additionally, Finance, OMB, and the actuarial firm together determine short-term liabilities to ensure a sufficient annual budgeted funding amount. **Figure 2** illustrates the total budgeted and actual expenditures of claim settlements for FY 2009 through FY 2011.

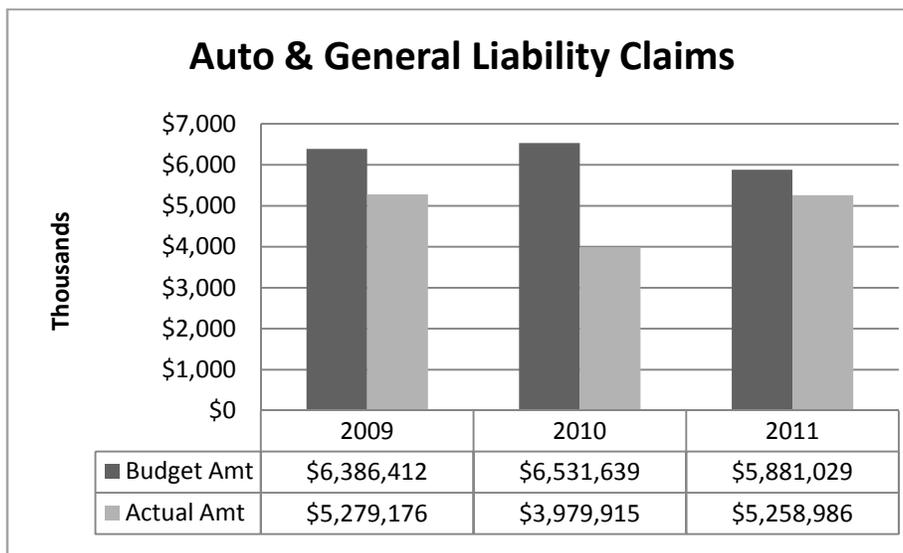


Figure 2

In FY 2012, the department assessment methodology was refined to allocate the liability fund appropriations more equitably to departments. The new methodology considered two cost drivers to develop the department assessment: the historic costs of claims by department and the total projected administration costs for management of the claim process.

A final assessment percentage allocation is developed and the total liability appropriations are allocated to the departments based on this allocation. In FY 2012, the assessment was developed using a combination of the FY 2011 and new methodology to smooth the department's assessments.

## Audit Scope and Methodology

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The audit scope included financial activity from FY 2010 through March 2012. The scope for trend analysis was from FY 2007 through FY 2011.

To gain an understanding of the Liability Insurance Fund, we interviewed personnel from the City Attorney's Office, Risk Management, Finance, and Office of Management & Budget (OMB) Departments. We reviewed processes and relevant documentation, including *The City of San Antonio Defined Self-Insurance and Risk Management Program*, ordinances and other policies and procedures.

We documented methodologies for the valuation of the liability for unpaid claims, annual budget of liability claims, and funding of the fund. We also reviewed for appropriate personnel involvement in the aforementioned methodologies.

We selected all expenditures greater than \$50,000 in FY 2010 through the first half of FY 2012 to include in a claim settlement review. We used a statistical attribute sampling methodology to obtain a random population of claim settlements valued at \$50,000 or less for inclusion in the review. We reviewed 44 claim settlements totaling \$3,399,462 for appropriate authorization and document support. In addition, we reviewed 235 expenditures totaling \$555,997 directly related with the settlements for reasonableness.

We relied on computer-processed data from SAP to obtain budget information. Additionally, we relied on computer-processed data from the TPA's ClaimStar system to obtain populations of claim settlements and expenditures. We performed direct tests on the data rather than evaluate the system's general and application controls. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

Finally, we conducted trend analysis of budget versus actual expenditures, open claims at fiscal year end, closed claims by fiscal year and total amounts paid by fiscal year.

This audit was conducted from February 2012 to May 2012 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 audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

## Audit Results and Recommendations

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### A. Claim Settlement Approval

Overall, claim settlements are properly authorized and supported. However, City Council did not authorize one court judgment of \$175,000 as required by the current policy. The City Attorney did not consider the approval necessary in this instance because it was a court ordered judgment, which must be paid regardless of the City's approval process. We agree with this assertion. However, City Council should be notified of this judgment and we noted no evidence to support Council notification.

We also noted no formal communication of claim activity provided to City Council other than those settlements over \$50,000. Additional claim activity information may prove useful to City Council by providing the opportunity to identify trends and recommend solutions in an effort to reduce the City's liability.

### Recommendations

**A.01** The Director of Human Resources in coordination with the City Attorney, amend the approval process for payments mandated by court order i.e. court ordered judgments.

**A.02** The Director of Human Resources provide City Council with a status of claim activity, such as summary reports of the type and number of claims as well as pending litigated claims, on a regular basis.

## **Appendix A – Staff Acknowledgement**

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Buddy Vargas, MBA, CFE, Auditor-in-Charge

## Appendix B – Management Response



### CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

August 8, 2012

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

RE: Management's Corrective Action Plan for the Liability Insurance Fund Audit

Human Resources Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

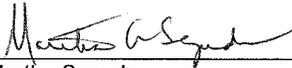
Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
A.01	<p><b>Claim Settlement Approval</b></p> <p>The Director of Human Resources in coordination with the City Attorney, amend the approval process for payments mandated by court order i.e. court ordered judgments.</p>	5	Accept	Martha G. Sepeda, Interim Human Resources Director and Michael D. Bernard, City Attorney	December, 2012
<p><b>Action plan:</b>                      Propose deleting approval process for payment of judgments from Ordinance No. 2007-09-13-0969/attachment XIII</p>					
A.02	<p>The Director of Human Resources provide City Council with a status of claim activity, such as summary reports of the type and number of claims as well as pending litigated claims, on a regular basis.</p>	5	Accept	Martha G. Sepeda, Interim Human Resources Director and Michael D. Bernard, City Attorney	December 2012 and ongoing

## Appendix B – Management Response (continued)

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p><b>Action plan:</b></p> <p>Present City Council with periodic updates in executive sessions or as deemed appropriate by City Attorney</p>				

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,

  
 \_\_\_\_\_  
 Martha Sepeda  
 Interim Director  
 Human Resources Department

Aug 8, 2012  
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 Date

  
 \_\_\_\_\_  
 Michael Bernard  
 Director  
 City Attorney Office

Aug 8, 2012  
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 Date

  
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 Ed Belmares  
 Assistant City Manager  
 City Manager's Office

Aug 8, 2012  
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 Date