



Lexington-Fayette Urban County Government  
OFFICE OF INTERNAL AUDIT

## INTERNAL AUDIT MEMORANDUM

DATE: January 6, 2015

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Officer  
Glenn Brown, Deputy Chief Administrative Officer  
Janet Graham, Commissioner of Law  
Patrick Johnston, Director of Risk Management  
Phyllis Cooper, Director of Accounting  
Susan Straub, Director of Communications  
Urban County Council  
Internal Audit Board

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit

RE: Risk Management Information System Reporting Concerns

### **BACKGROUND:**

The Director of Risk Management recently brought two concerns to my attention regarding information within the Risk Management Information System. The Office of Internal Audit was subsequently authorized by the Internal Audit Board to review these concerns:

1. Concern regarding the accurate financial reporting of the Lauren Roady Claim within the Risk Management Information System (RMIS), particularly as it impacted the reporting of the excess insurance carrier's claim payment to insurance brokers and other outside insurance firms.
2. Concern about possible miscoding of certain other claims contained in the RMIS.

## **OBSERVATIONS:**

### **Reporting of Lauren Roady Claim Within RMIS**

In 2013 the LFUCG paid \$2 Million to the Lauren Roady Estate (plaintiff) to settle their claim against the LFUCG. \$2 Million was the LFUCG self-insurance payout limit. Our review determined that this \$2 Million financial impact to the LFUCG was accurately reported in the RMIS database and in an RMIS report we examined (LFUCG Auto Liability Claims \$50,000+). The total amount of the Roady settlement was \$3.75 Million; however, LFUCG did not receive any recovery amount from the excess insurance carrier. Instead, the additional \$1.75 Million was paid directly to the plaintiff by the excess insurance carrier to fully settle the claim. This information was included in a File Notes Comments field within the RMIS database, but was not included in the LFUCG Auto Liability Claims \$50,000+ report provided to LFUCG's insurance broker because this report captured comment information contained in the RMIS Description of Loss footnotes field, and this field did not contain comments regarding the excess carrier payout.

The Director of Risk Management was concerned that the omission of the \$1.75 Million excess carrier payout in the LFUCG Auto Liability Claims \$50,000+ report might result in the failure to disclose the full amount of the claim settlement to future insurance brokers. We were informed by the Director of Risk Management this was not the situation with the current insurance broker, because the current broker was aware of the excess \$1.75 Million payout, and actually brought this reporting omission to his attention during their due diligence process.

The Director of Risk Management was also concerned that the \$1.75 Million excess carrier payout would be omitted from future actuarial analysis used to calculate future LFUCG liability trends. Our examination noted that the \$2 Million LFUCG liability for the Roady case was included in the LFUCG Loss Runs provided to the Actuary in 2013 and 2014. The Methodology Notes contained in both the FY 2013 and FY 2014 Final Actuarial Reports state that, "We were given dates of loss, claim number, gross amount paid and incurred after recoveries for reinsurance and subrogation. We limited claims to the self-insured retention based on date of loss and reinsurance information provided by LFUCG. We assumed all reinsurance has been collected or is collectible".....Loss amounts are limited to the self-insured retention." The LFUCG Claims Manager informed us that the Actuarial Reports are only concerned with claim amounts up to the limit of LFUCG's self-insurance liability cap, and this explanation is supported by the Methodology Notes contained in the 2013 and 2014 Actuarial Reports. We also noted that the 2013 Final Actuarial Report included the Roady case in Exhibit AL-19 List of Large Claims for \$2,000,000, consistent with their Methodology Notes. The Roady case was not included in the 2014 Final Actuarial Report because the case was settled in the fall of 2013.

We also obtained numerous emails from various senior management personnel clearly indicating that the Director of Risk Management's concerns were not ignored, and that there was a good faith effort to clarify the \$1.75 Million excess insurance payout in RMIS. However, the current RMIS program did not have a specific field to report excess insurance payouts made directly to a plaintiff, and the vendor informed LFUCG Information Technology personnel that the only way to change information in closed claims was to void the payment in RMIS and then re-enter it with original date and check number. Department of Law personnel were concerned that this would create a significant discrepancy between claims information in RMIS and claims payment information in PeopleSoft, because they had determined that RMIS would assign the current date (not the close date) to the Roady claim if they tried to void payment and re-enter claims information.

We were also informed by Department of Law management that beginning in January 2015, the LFUCG will cease using its current version of RMIS software which is several years old and contained on an LFUCG server, and will begin using up-to-date RMIS software via a web-based connection with the vendor's server. Training on the use of the web-based RMIS is planned for January 2015.

### **Possible Miscoding of Certain Other Claims Within RMIS**

The other claims codes in question appear to be correctly coded in RMIS based upon the Excess Carrier Policy's definition of Bodily Injury. The Claims Manager used the Excess Carrier Policy when assigning the claims codes because it is more current than the LFUCG Self-Insurance Policy.

### **RECOMMENDATIONS:**

As stated in the OBSERVATIONS section of this memorandum, the RMIS correctly states that LFUCG paid \$2 Million to settle the Roady claim, and this is the limit of LFUCG's self-insurance payout. Therefore, the RMIS correctly states the amount paid and total cost incurred by LFUCG in settling the Roady claim. However, a mechanism should be in place to provide reasonable assurance that the excess insurance company's direct payment of \$1.75 Million is not overlooked when reporting claims information to future insurance brokers. Although the \$1.75 Million is not part of the claim amount paid by LFUCG, it is still a significant part of the overall settlement history of the Roady Claim.

With the implementation of the new RMIS software in January 2015, the Department of Law should confer with the RMIS vendor to determine the best reporting mechanism to

clearly identify in the RMIS and any related reports any future situations where excess insurance is paid directly to a plaintiff by the excess insurance provider. The Department of Law should also inquire whether an updated entry can be made in the new RMIS software Description of Loss Footnotes field regarding the \$1.75 Million excess insurer payout in the Rody claim without having to void the original payment in RMIS. The intent is to provide reasonable assurance that future LFUCG Auto Liability Claims \$50,000+ reports will disclose the excess carrier's payment made to the Rody Estate and thereby avoid any future concerns regarding full disclosure of the total cost of this claim. In the interim, the Department of Law should insert a memorandum detailing the \$1.75 Million excess insurance payment into a permanent claims file used in obtaining excess insurance carrier bids. If the RMIS File Notes Comments field cannot be updated as recommended, this memorandum should be added to any packet of information submitted by LFUCG to an insurance broker or excess insurance bidders to ensure full disclosure and transparency of the excess insurer's payment in the Rody Claim.

We also recommend that the Department of Law review the LFUCG Self-Insurance Policy and update it as necessary.

**Commissioner of Law Response:**

The Department of Law concurs with the recommendations.