

Audit Report

Finance Department

***Risk Management
Public Liability-Property Damage
and General Liability Claims***

and

***Property Damage/Loss Recovery
Claims***

January 2013

AU13-03

City Manager
Scott C. Barber

Internal Audit Manager
Cheryl L. Johannes

Office of the City Manager
Internal Audit Division
Riverside, California

REPORT SUMMARY

In accordance with the Internal Audit Work Plan for Fiscal Year 2012/2013, a performance audit was conducted to review the effectiveness, efficiency and internal controls for Public Liability ~ Property Damage and General Liability Claims¹ and Property Damage Recovery Claims.

The City's claims administration process is not centralized. The Finance/Risk Management Division is responsible for administrative oversight of all liability claims filed against the City; whereas the Finance/Accounting Division manages all property damage recovery claims caused by crimes, destruction or negligence. Based upon the results of our review, we identified opportunities to strengthen processes and controls that could lead to workforce efficiencies and increased revenue to offset property damage expenditures.

Public Liability-Property Damage and General Liability Claims are funded by the City's self-insurance program. Risk Management is responsible for the administration and oversight of the claims process for the City's self-insured exposures through a contract with a third party insurance claims administrator, Carl Warren and Company. Our review determined that the City adheres to the California Government Code which establishes general requirements for filing claims against public entities and sets various deadlines for filing and processing claims. The City's Municipal Code Section 1.05 and 1.06 provide information regarding the City's claim process and the documentation needed to support a claim. We found that property damage/general liability claims against the City were processed timely and data maintained by Carl Warren was reliable. Reports are readily available from Carl Warren; however Risk Management does not provide departments/management with periodic standard claim status reports.

Property Damage/Loss Recovery Claims are processed on behalf of City departments by Finance/Accounting once a police report has been filed and received and repairs to property have been expensed by departments. The recovery claims process in Finance/Accounting is inefficient. The process is dependent on the Police Department to submit timely Incident Reports; and on timely repair costs from the responsible department/division. The workflow appears to be sporadic; the City Attorney's Office (CAO) does not receive timely claim information in order to proceed with legal action. Claims data recorded in the financial system, IFAS, does not easily tie back (reconcile) to information recorded in SharePoint. SharePoint recovery claims data is not organized in a meaningful way to facilitate analysis or reporting of claims data status and aging to ensure timely collection within the statute of limitations. Improved methods and standard procedures should be developed to promote a timely and collaborative claims recovery effort.

Centralization In reviewing industry standards and "best practices", we found that both public liability and property damage recovery claims were generally managed and staffed centrally by the entity's Risk Management department/division. Properly executed, we believe the City could potentially recoup a substantial greater amount of property damage expenditures by outsourcing the recovery claims process with a third party administrator, like Carl Warren and Company, who provides industry-specific expertise. Savings are realized by reducing the number of Finance/Accounting staff assigned to

¹ General Liability includes Auto and Personal Property Damage. The review did not include claims related to CPRC/Police, Employee Relations (personnel claims), Worker's Compensation, or Graffiti.

recovery claims; timely online reports would be available to departments/divisions; insurance companies would have a central contact. A third party primarily relies on retaining a percentage of dollars actually collected, which is an incentive to invest in the collection effort which leads to a higher net recovery for the City. Centralizing and outsourcing with Carl Warren could be managed by a currently funded position within the Finance/Risk Management Division. We encourage the Finance Director to consider whether the City's current method of handling property damage recovery claims in-house is the most efficient and cost-effective method that ensures the City is fully recovering all the costs to which it is legally entitled.

We thank the management and staff of Carl Warren and Company, Risk Management Division and the Accounting Division for their assistance and cooperation during the course of this review.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

Our audit objectives were to:

- Determine if Public Liability – Property Damage & General Liability Claims are in compliance with California Government Code; and
- Assess the effectiveness and efficiency of the Property Damage Recovery claims process to ensure the City is recovering the labor and material costs to repair third party damages to City assets.

Scope and Methodology

The review was conducted during the period from September to December 2012. To address the audit objectives and as part of our assessment of risk, we:

- Obtained an understanding of the City of Riverside’s Municipal Code Section 1.05 (Claims against the City) and 1.06 (Authority regarding Claims against the City), Municipal Liability Claims Procedure Number 06.008.00, California Government Code Sections 910-913.2 and Code of Civil Procedure Section 338, and other applicable regulations and guidelines;
- Obtained an understanding and reviewed the appropriateness of the estimation of liabilities processed for Public Liability in the City of Riverside’s Comprehensive Annual Financial Report (CAFR);
- Reviewed the actuarial reports to ensure the amounts noted are adequate to cover prior and current year claims, incidents, and expenses;
- Interviewed Risk Management, Third Party Administrator, and Accounting staff to gain an understanding of the current processes in place for Public Liability and Property Damage Claims;
- Performed an analytic review of data for reliability, relevance, validity, reasonableness and completeness;
- Performed a review of the data recorded in the Third Party Administrator’s system to data recorded in the City’s financial system;
- Reviewed a sample of Open/Closed Claims to verify sufficient documentation is maintained to support the payments and settlements of claims;
- Reviewed a sample of electronic files maintained by Risk Management for completeness;
- Performed an analytic review of the data in SharePoint for Property Damage Claims; and
- Performed an analytic review of the data in IFAS (Accounts Receivable module) for Invoices Billed, Payments Collected, and Aging of outstanding receivables.

Our review was conducted in accordance with *Generally Accepted Government Auditing Standards* and according to the *Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors. Those standards require that the audit is planned and performed to afford a reasonable basis for judgments and conclusions regarding the department, division, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe our audit provides a reasonable basis for our conclusions.

A draft audit report was provided to the Finance Director, Controller and Risk Manager, as well as the City Attorney's Office. A meeting to discuss our assessment and content of the draft report with the Finance Director and his management staff was conducted in February. The Finance Department's comments and concerns during this discussion were considered prior to finalizing the report. Management's responses to recommendations are included.

BACKGROUND

Public Liability Claims

Riverside Municipal Code Chapter 1.05 and 1.06 govern the City of Riverside's authority and review of all claims filed against the City. The Risk Management Division (within the Finance Department) is responsible for the administration and oversight of the City's self-insured program. A self-insured retention limit of \$3 million has been established for Auto and General Liability Claims. The Risk Management Division is also responsible for the procurement and administration of commercially purchased insurance, in the amount of \$20 million, for all other applicable City exposures. (Worker's Compensation claims, Employee Relations, and Graffiti Claims are excluded from the scope of this audit.)

The City of Riverside has contracted with a Third Party Administrator (TPA), Carl Warren and Company, to manage, review, and resolve all public liability claims filed against the City. Terms of the current contract are September 1, 2012, through June 30, 2017. Carl Warren provides the City's Risk Manager with online access to their web-based application system, which has capabilities to provide various standard reports to management with status updates and costs incurred for processed claims.

Claims filed against the City are filed with the City Clerk's Office using a City of Riverside claim form; a copy is forwarded to the City Attorney's Office (CAO) and Risk Management Division. (Note: City of Riverside's Form – Claim for Damages is not available online, only hardcopy at the City Clerk's office.) Per California Government Code Section 911.2, a claimant has six months from the date of occurrence of the event to file a claim. If the date of filing the claim is later than six months after the occurrence, the claim is considered to be a late claim and different procedures apply. The Risk Management Division forwards a copy of all claims to our TPA for review and requests the involved City Department to perform an investigation. Upon receipt of the claim, the TPA sends notification to the claimant advising them that their claim is being reviewed and investigated. The results of investigations are forwarded to the TPA for review; the TPA will coordinate with the CAO on recommended actions, and proceed accordingly to resolve or reject the claim. Refer to *Exhibit 1* for a process flowchart overview.

Each claim filed against the City is unique and the amount of time that is taken to resolve a claim is dependent on several factors, including but not limited to the nature and type of damage, investigations performed by the City Department, and specialty claims handled by the CAO. Below is a brief outline of the timeline process for Public Liability claims:

- Following initial receipt of a claim, the City has 45 days to act on the claim per Government Code Section 912.4;
- If the claim is allowed the City will pay all approved costs associated with the claim and obtain a signed release of liability from the claimant releasing the City from any further liability;
- If the claim is rejected (during the initial 45 days), the claimant has six months from the date of mailing the rejection letter to file suit per Government Code Section 945.6; and
- If the claim is not allowed within 45 days, then the claimant's has two years to file suit.

Carl Warren has an established a collaborative working relationship with all City Departments and the CAO; every effort is made to resolve all claims filed in an efficient and timely manner.

Risk Management Division has established various levels of approval for the settlement of all payments for liability claims.

Levels of Approval

Risk Manager/TPA (Carl Warren and Company) ⁽¹⁾	\$ 5,000 or less
Risk Manager/City Attorney's Office	\$ 5,001 - \$ 14,999
City Manager's Office/Finance Director ⁽²⁾	\$ 15,000 - \$ 24,999
City Council	\$ 25,000 or more

(1) On behalf of the Risk Manager, the TPA is given the approval to negotiate claims in the amount of \$5,000 or less.

(2) On behalf of the City Manager, the Finance Director can approve the settlement of claims in the amount of \$15,000 - \$24,999.

All payments to settle claims on behalf of the City are paid via the City's Accounts Payable process and recorded in the financial system.

Carl Warren uses a web-based application system to record, analyze, and report on all claims related to their client(s). As part of the requirements of our contract, the company provides online access to their system. Monthly statistical reports are available and include:

- Detail Report – listing of all claims by policy year to include name, date of loss, etc.
- Summary Report – for each year by type of loss
- Transaction Register – listing of all transactions recommended during the month
- Claims Opened during the month
- Claims Closed during the month
- Active Liability Litigation – listing of cases by defense firm

Utilizing the web-based application system, Internal Audit was allowed to review data for Open and Closed claims as of June 30, 2012 and for the audit period (July 1, 2010 – June 30, 2012) to perform various analyses pertinent to Public Liability Claims.

The City had a total of 8,667 claims filed and closed as of June 30, 2012, totaling over \$28 million.

Closed Claims (Auto and General Liability) as of June 30, 2012

Dollar Range of Claim	Number of Claims	Total Cost Incurred \$
\$ 1,000,001 or more	2	\$ 2,997,729
\$ 500,001 - 1,000,000	2	1,374,114
\$ 100,001 - 500,000	27	5,642,420
\$ 25,001 - 100,000	77	3,641,478
\$ 15,001 - 25,000	89	1,778,062
\$ 5,001 – 15,000	787	6,748,519
\$ 5,000 or less	4,199	6,263,951
\$ 0 (No amount paid)	3,484	-
Total	8,667	\$28,446,273

*Source: Carl Warren and Company

As of June 30, 2012, the City has 310 open/outstanding claims, with \$3.4 million for estimated contingencies (reserve loss and expense) and \$3.9 million (payment loss and expense) for total costs incurred.

Open Claims as of June 30, 2012

City Department	Number of Claims	Reserve Loss ⁽¹⁾ \$	Reserve Expense ⁽²⁾ \$	Payment Loss ⁽³⁾ \$	Payment Expense ⁽⁴⁾ \$	Total Incurred \$
Community Development	5	85,500	85,337	-	439,663	610,500
Parks & Recreation	4	21,737	15,000	-	-	36,737
Police	34	344,946	381,132	12,564	765,510	1,504,153
Public Utilities	43	61,585	7,500	13,921	-	83,007
Public Works	224	1,754,217	679,714	238,656	2,434,285	5,106,872
Total	310	\$2,267,986	\$1,168,684	\$265,141	\$3,639,458	\$7,341,269

*Source: Carl Warren and Company

According to data from Carl Warren, during the audit period, July 1, 2010 through June 30, 2012, the Risk Management Division handled a total of 1,545 claims for Auto and General Liability. Public Works has incurred the greatest number of claims. Refer to *Appendix A* for more detailed information.

Conclusion

As part of our review, Internal Audit judgmentally selected a representative sample from various City Departments of Open (68%) and Closed claims (18%) to review for proper handling and/or resolution. We reviewed Carl Warren's claim files and verified adequate supporting documentation is maintained for payments and settlements of claims, including but not limited to:

- Results of the search from the National Insurance Database and ISO Claim Search;
- Documentation of the investigation performed by the City Department or authorized vendor appointed by the City;
- Pictures of the damage;
- Correspondence between the TPA and City Attorney's Office;
- Invoices;
- Signed Release of Liability; and/or
- Cassette Tape with recording a statement from the Claimant (if applicable).

Based on our review of sample public liability property and general liability claims, there appears to be adequate supporting documentation. Claims were generally received timely from the City Clerk's Office, Risk Management routed the claims to Carl Warren immediately upon receipt, and Carl Warren managed and resolved the claims process accurately, timely and maintained a reliable system/database.

During our discussion of the public liability claims process with select Department Directors, each expressed an interest in receiving at least annually from Risk Management a summary report of costs incurred on various types of liability claims.

Property Damage Recovery Claims

Self-insured entities, like the City of Riverside, seek reimbursement for their property damage losses from third parties (the individual who caused the damage or the individual's insurance company). Recovery of losses (expenditures to repair/replace) directly impacts City revenue and expense budgets. The pursuit of recovery against third parties responsible for damaging City assets is not part of the City's self-insurance program under Risk Management. The Accounting Division (within the Finance Department) is responsible for the administration and handling of all property damage recovery claims.

Departments incur the expense to repair/replace damaged property/assets; any recovery of funds is recorded as revenue to GL Object 380100 – Damage Claim Recoveries. Actual revenue received for recovery of damage to City property for the two year audit period is noted in the following table.

Property Damage Recovery Revenue by Fund

Fund	Fund Name	FY 2010 – 2011	FY 2011-2012
101	General Fund	\$ 17,254	\$ 1,259
510	Electric	423,056	477,604
520	Water	44,772	108,145
540	Refuse	1,698	7,405
550	Sewer	15,217	2,627
560	Special Transit	2,110	3,296
650	Central Garage	6,771	3,114
Total		\$ 510,878	\$ 603,450

*Source: City's Financial System (IFAS)

Per California Code of Civil Procedure Section 338 (b), the City of Riverside has three years to seek recovery from other parties for damages to City property by filing a lawsuit. Any suit not filed within the three year period is generally barred by the statute of limitations. Property damage recovery claims are usually the result of a vehicle accident with damage to an electric box or pole, traffic signal, stop sign, street light, fire hydrant, tree, etc.

For all accidents/incidents, a Police Report is completed noting what and when City property has been damaged; a copy of the reports is forwarded by the Police Department several times during the month to the Finance/Accounting Division.

Based our discussion and review of the administrative process with the Accounting staff, when there is an accumulation of Police reports, staff inputs the information from the report into SharePoint, a Web application platform that allows for the management and electronic retention of information. At the time of input into SharePoint, staff will create a "task" and assign the "task" to the point of contact within the related City department, requesting a review of the property damage and documentation of any costs to include the direct material and labor costs associated with the repair of the property/asset.

Once the direct material and labor costs are determined by the City Department, a "task" is forwarded in SharePoint to notify the Accounting staff with information for billing the third party. The Accounting staff creates an invoice in the City's Financial System (IFAS) and records an Accounts Receivable.

The invoice sent to the liable third party includes the Date of Incident, Police Report Number, and detail of the costs such as direct material, labor, or equipment (if applicable). All invoices are due within 30 days of invoice date. If payment is not received by Treasury, then a second and third reminder is mailed out by Accounting.

In addition to the invoicing process, Police reports are routed to another staff within Accounting who is responsible for contacting the insurance company noted in the Police report. The staff person usually calls the insurance company to establish a claim, and provides the necessary information. According to the Accounting staff, this task is usually performed once a week when the overall workload permits. Refer to *Exhibit 2* process flowchart for an overview.

Collections for Outstanding Property Damage Claim Invoices

Currently, for all property damage claim invoices that have been outstanding for a “long period of time and no response received”, Accounting forwards the information to the CAO, requesting a Demand Letter be sent requesting payment. If the CAO does not receive a response from the demand letter, Accounting is notified and the collection process proceeds.

The City of Riverside has contracted with Marigold Financial LLC to provide collection services and represent the City in handling of delinquent accounts and returned checks. For all property damage claims in the amount of \$5,000 or less where no response has been received by Accounting or the CAO, Accounting forwards the invoice information to the collection agency. Marigold remits any collections made on behalf of the City on a monthly basis; supporting documentation notes the name of the debtor, date, amount received, amount due to the City and amount retained by the collection agency (20% of the collected amount). The statement from Marigold does not note if the amount collected was related to a property damage claim, Graffiti claim or returned check. All amounts received from Marigold are recorded to Bad Debt Recovery (GL Object 374800).

For all property damage claims \$5,000 or greater and no response has been received, Accounting will coordinate with the CAO on taking possible legal action. The CAO will review the property damage claim in detail to determine if legal action is warranted and can be supported in court. If so, the CAO will file a lawsuit in court and proceed accordingly; otherwise the property damage claim is forwarded back to Accounting for final determination (i.e. write-off as uncollected).

Aging of Outstanding Property Damage Claims Invoices

Police reports that initiate an invoice to be processed within the Accounts Receivable module in IFAS for property damage recovery claims are assigned a specific code (PR00 – PR10).

Utilizing the Miscellaneous Codes, an analysis was performed to determine the invoices billed and payment related information. Refer to the charts on the next page.

Summary of Property Damage Recovery Claims as of December 18, 2012.

	No. of Invoices	Dollars (\$)
Invoices Billed, July 1, 2010, through June 30, 2012	402	1,497,002
Invoices with Payments Received	212	(660,620)
Write offs to Collections, Bad Debts, and Settlements	--	(124,645)
Invoices with a Balance Outstanding as of June 30, 2012	192	711,737
Payments/Write-offs after June 30,2012	--	(145,237)
Invoices with a Balance Outstanding as of December 18, 2012	153	\$ 566,500
Cost Recovery Ratio		44%
Percentage of Invoices Outstanding		38%

*Source: Analysis performed by Internal Audit on data provided by Accounting Division Staff.

Cost Recovery Ratio = Payments Received/Invoices Billed

Percentage of Invoices Outstanding = Outstanding Balance as of December 18, 2012/Invoices Billed

From the outstanding invoices as of December 18, 2012, we analyzed (aged) the data to determine the number of days the invoice balances have been outstanding as an Accounts Receivable on the City's financial records.

Property Damage Invoices Outstanding as of December 18, 2012

Days Outstanding	No. of Invoices	%	Outstanding Balance
366 days and over	53	36%	\$ 164,493
180 days – 365 days	93	64%	240,190
Total	146	100%	\$ 404,683

*Source: Analysis performed by Internal Audit on data provided by Accounting Division Staff

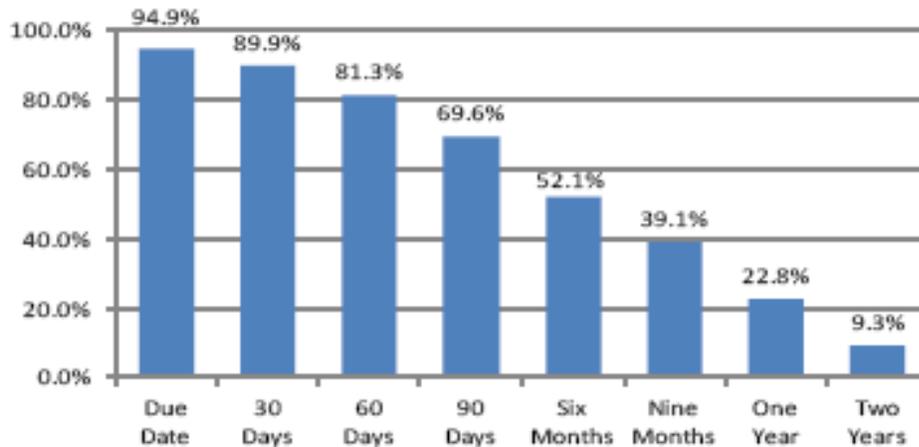
From the outstanding invoices, we judgmentally selected a sample of 18 invoices to review the date received and current status per the CAO. See the table below. Of the 18 invoices, seven were forwarded to the CAO; the other 11 invoices were never forwarded to the CAO for pursuit and remain outstanding in the financial records. Following are the results of the sample of 18 invoices/claims selected for testing.

Sample – Property Damage Recovery Claims

Invoice Number	Incident Date	Invoice Date	Diff(1)	Invoice Amount	Balance: 12/18/2012	Age: 12/18/2012	CAO Received Date	Diff (2)
1	5/18/2010	12/29/2010	225	\$ 52,863	\$ 49,663	720	6/16/2011	169
2	1/13/2011	3/15/2011	61	38,171	38,051	644	9/22/2012	557
3	10/29/2011	2/9/2012	103	29,403	29,403	313	7/23/2012	165
4	9/2/2011	3/8/2012	188	16,936	16,936	285	N/A	
5	4/4/2010	12/29/2010	269	16,545	16,545	720	9/22/2011	267
6	7/16/2011	2/9/2012	208	13,644	13,644	313	N/A	N/A
7	1/27/2011	3/15/2011	47	11,399	11,399	644	N/A	N/A
8	7/9/2011	2/9/2012	215	11,245	10,393	313	N/A	N/A
9	12/22/2010	3/5/2012	439	10,099	10,099	288	7/23/2012	140
10	5/4/2010	12/29/2010	239	9,826	9,826	720	N/A	N/A
11	5/4/2010	5/15/2012	742	9,826	9,826	217	3/22/2012	83
12	11/6/2010	12/30/2010	54	9,673	9,673	719	N/A	N/A
13	1/17/2011	3/15/2011	57	8,232	8,232	644	9/22/2011	191
14	2/22/2008	2/8/2011	1,082	7,403	7,403	679	N/A	N/A
15	3/15/2010	6/30/2011	472	7,103	7,103	537	N/A	N/A
16	4/3/2011	6/22/2011	80	6,112	6,112	545	N/A	N/A
17	8/15/2011	3/27/2012	225	5,706	5,706	266	N/A	N/A
18	4/1/2010	12/29/2010	272	5,431	5,431	720	N/A	N/A
Total Sample Dollars Reviewed					\$265,445			
Outstanding Balance – December 18, 2012					\$566,500			

- (1) The number of days between the incident date and invoice date.
 (2) The number of days between invoiced date and date City Attorney's Office received the claim.
 *Source: SharePoint, City's Financial System (IFAS) and CAO.

Collection success diminishes over time. According to the *Commercial Collection Agency Association*, the probability of collecting on a delinquent (past due) invoice significantly decreases after the first six months.



Conclusion

Based upon our review of the outstanding property damage claims, it appears there are opportunities to strengthen controls and improve the overall process to ensure timely collection of funds due to the City. We found:

- No administrative policy in place to communicate/advise the departments of their role and responsibility in providing timely damage recovery cost information;
- No application system in place to adequately manage the recovery claims data from time of incident report receipt through collection or write-off;
- Outstanding claim recovery invoices for a significant period of time in the City's financial system with no appearance of resolution (write-off or initiate collection efforts).

The Finance Department may want to research and consider all administrative process/procedure options available for the Property Damage Recovery Claims function to ensure the City is recovering all costs it is entitled to, such as outsourcing the function to a third party administrator or reengineering the administration process if the function continues to remain within the Accounting Division.

FINDINGS & RECOMMENDATIONS

Finding 1: City Departments are not provided timely and adequate status updates on public liability and property damage recovery claims.

There is no formalized process in place to provide feedback and/or status reports to the various City Departments regarding claims. Risk Management receives claim reports on a monthly basis from the TPA as per our contract; however, information is not provided to City Department management. The Accounting Division who manages property damage recovery claims does not prepare and route status reports to City Department management.

The Internal Audit Division conducted an informal survey of City Department(s) to obtain feedback on their current experience with the process for Public Liability and Property Damage Recovery Claims.

Below are key comments/feedback:

- Periodic reports (quarterly, semi-annually, or annually) that shows the outstanding activities and results would be helpful and beneficial;
- Process is not formalized nor documented;
- No communication for Public Liability Claims after the department's investigation has been performed; claim was paid in full, declined, or partially negotiated; and
- No tool in place to know if costs related to damage claims has been recovered in full/partially or written off (status per claim).

Recommendation(s):

- **Risk Management should provide periodic Status Reports to City Departments on claims related to their department including but not limited to number and type of claims, division, claim status, costs incurred, etc. This will assist City Departments in identifying areas with the highest risk exposure.**
- **Accounting Division should establish a system for regularly gathering and reporting data on property damage claims to City Departments; include such information as status of communication with the liable party, costs recovered, date recovered, amount recovered, etc.**

Management's Response

While requests for such information have never been posed to Finance staff, the request is reasonable and Finance will explore appropriate means to periodically share this information.

Finding # 2: The current in-house Property Damage Recovery Claims process should be formally documented and reengineered to improve communication and increase potential recovery of department expenditures.

The current claims process is dependent on the Police Department to submit timely Incident Reports and on timely repair costs from the responsible department/division. The workflow appears to be sporadic; the City Attorney's Office (CAO) does not receive timely claim information in order to proceed with legal action. Claims data recorded in the financial system, IFAS, does not easily tie back (reconcile) to information recorded in SharePoint. SharePoint recovery claims data is not organized in a meaningful way to facilitate analysis or reporting of claims data status and aging to ensure timely collection within the statute of limitations. Due to staffing constraints and limited resources, processing claims and communication with the CAO and departments appears to be sporadic.

No formal administrative procedures have been documented for processing damage claims or collections of delinquent claims invoices. The design, implementation and monitoring of formalized and documented specific control-related policies and procedures is an essential element of any comprehensive internal control structure.

We identified the following specific administrative process and control weaknesses:

- No system to account for and accumulate data for Property Damage Recovery claims (i.e., input, processing, billings, payments, collections, aging, reports and correspondence);
- Significant number of days between the Incident and Invoice Date, and date received by the CAO;
- No Field column in common between the data in SharePoint and the City's Financial System (IFAS);
- No reconciliation of the detailed data in SharePoint to IFAS/AR module ;
- No log is maintained of invoices/Accounts Receivable that have been forwarded to Marigold Financial LLC for collection or to the CAO for legal pursuit of funds for property damage recovery claims;
(Note: during the audit fieldwork, the Accounting Division implemented a feature in the City's Financial System (IFAS) that will designate if the invoice/Accounts Receivable has been referred to the CAO, however, this is only for going forward, not retroactive);
- No review or aging of property damage claim invoices in the Accounts Receivable module;
- No monitoring of the statute of limitations (3 year period), specifically between the Incident Date, Invoice Date and current status;
- CAO does not appear to be receiving the Property Damage Recovery Claims in a sufficient enough time to be able to consider all the legal options; and
- No periodic Status Reports are provided to Management or City Departments of costs that have been recovered.
- There are currently 53 invoices (totaling \$164,493) outstanding longer than 360 days on the City's financial records. There does not appear to be a standard review process to determine collectability of these invoices or write-off at year-end to ensure the financial statement is not overstated for Accounts Receivable.

Recommendation(s):

- Accounting Division should establish a formalized *Administrative Policy and Procedures for Property Damage Recovery Claims*. The Policy and Procedures should be communicated to City Departments and readily available on the intranet for review. The policy should establish a reasonable timeframe (i.e. 60, 90 days) for departments to respond with direct labor and material costs associated with the repair of damaged city property/assets. If information is not provided within the timeframe, one option to consider is dismissal of the recovery claim.
- Establish a point of contact with each department rather than several contacts in the departments/divisions.
- Reengineer SharePoint in order to provide timely and informative standard reports to departments at least annually.
- Establish procedure(s) for the write-off of uncollectible Accounts Receivable.
- Review the 53 invoices outstanding as of December 18, 2012 and determine the collectability. If the invoices are deemed uncollectible perform a write-off and/or refer to the collection agency.

Management's Response

Finance management agrees that the process is in need of improvement and will initiate an internal project within the Accounting Division to review the current process and explore the options noted above.

Appendix A

Claims by Type of Liability and City Department for the period July 1, 2010, through June 30, 2012

Auto Liability						
City Department	Number of Claims	Reserve Loss ⁽¹⁾ \$	Reserve Expense ⁽²⁾ \$	Payment Loss ⁽³⁾ \$	Payment Expense ⁽⁴⁾ \$	Total Cost Incurred \$
Community Development	2	-	-	2,893	-	2,893
Fire	4	-	-	1,764	-	1,764
Parks & Recreation	4	2,500	-	1,870	-	4,370
Police	34	33,800	-	36,792	206	70,798
Public Utilities	15	-	-	29,292	362	29,654
Public Works	41	37,456	-	38,210	181	75,847
Total – Auto Liability	100	\$ 73,756	-	\$ 110,821	\$ 749	\$ 185,326
General Liability						
Airport	1	-	-	1,309	-	1,309
Community Development	6	5,500	-	1,209	-	6,709
Fire	5	-	-	449	-	449
Museum	3	-	-	-	-	-
Parks & Recreation	13	19,237	15,000	8,265	-	42,501
Police	62	15,046	285,604	49,355	596,039	946,044
Public Utilities	226	56,585	7,500	266,125	181	330,391
Public Works	1,129	644,161	178,392	2,467,327	26,072	3,315,952
Total - General Liability	1,445	740,530	486,496	2,794,039	622,292	4,643,356
Grand Total	1,545	\$ 814,286	\$ 486,496	\$ 2,904,860	\$ 623,041	\$ 4,828,682

*Source: Carl Warren and Company

**Public Works
For the period, July 1, 2010, through June 30, 2012**

Type of Liability	Division	Number of Claims	Reserve Loss ⁽¹⁾ \$	Reserve Expense ⁽²⁾ \$	Payment Loss ⁽³⁾ \$	Payment Expense ⁽⁴⁾ \$	Total Cost Incurred \$
Auto	Public Works	4	-	-	1,075	-	1,075
	Refuse Collection Services	20	13,456	-	12,775	181	26,412
	Sewage Systems Services	1	-	-	2,512	-	2,512
	Street Maintenance/ Sweeping	16	24,000	-	21,848	-	45,848
	Total – Auto	41	\$ 37,456	-	\$ 38,210	\$ 181	\$ 75,847
General	Public Parking	7	31,100	15,000	-	-	46,100
	Public Works	12	25,000	-	10,839	-	35,839
	Refuse Collection Services	9	3,500	-	891	-	4,391
	Sewage Systems Services	39	22,800	-	255,184	-	277,984
	Storm Drains	6	-	-	933	-	933
	Street Maintenance/Sweeping	215	217,733	161,392	172,711	26,072	579,907
	Street Trees	841	344,028	-	2,026,769	-	2,370,798
	Total – General	1,129	\$ 644,161	\$ 178,392	\$ 2,467,327	-	3,315,952
Grand Total	1,170	\$ 681,617	\$ 178,392	\$ 2,505,537	\$ 26,253	\$ 3,391,799	

*Source: Carl Warren and Company

Based upon our discussion with Carl Warren staff and review of documents, Public Works has continued to incur over the past years a significant number of liability claims for a certain type of tree that has been planted along the streets by the City in various areas throughout Riverside, the Shamel Ash.



The Shamel Ash is a large shade tree with thick trunks and full green canopies, and is the fastest growing Ash tree. This type of tree can grow over 80 feet tall in over 30 years with a shallow and invasive root system causing driveways and sidewalks to be lifted, also causing damage to the City water and sewer lines. In the past two fiscal years the City has paid out over \$2 million in repairs to driveways, sidewalks, sewer and water pipes to claimants related to these trees. This information was shared by Internal Audit with the Public Works Director, who expressed a strong interest in receiving this type of claims data as a standard reporting procedure.

- (1) Reserve Loss - Additional amount set aside to be paid out for settlement of the claim.
- (2) Reserve Expense – Estimated amount set aside to be paid out for anticipated expenses.
- (3) Payment Loss – Settlements that have been paid out.
- (4) Payment Expense – All Expenses related to the claim (Legal, Attorney Fees, Investigations, etc.).

Exhibit 1

A flowchart of the current Risk Management Division claims process:

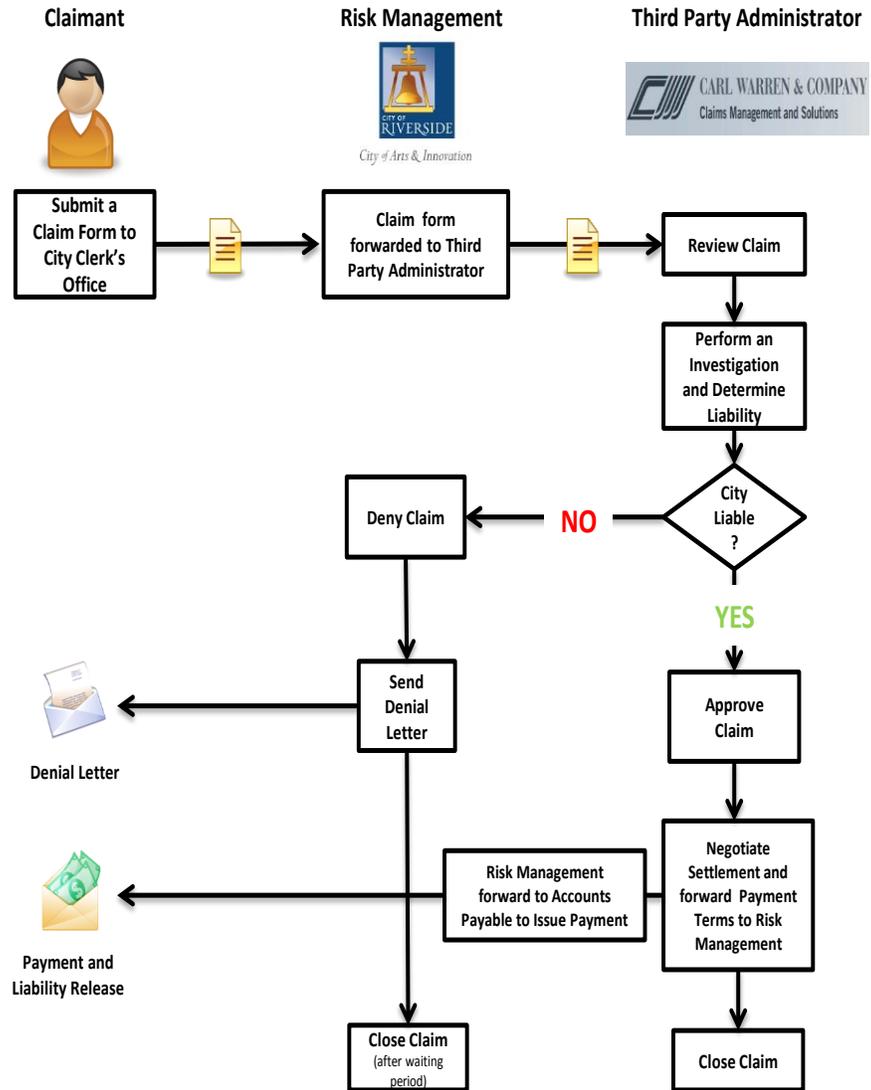


Exhibit 2

A flowchart of the current Accounting Division property damage recovery claim process:

