



**June 12, 2024**

**To:** Finance and Administration Committee

**From:** Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director,  
Internal Audit Department

**Subject:** Liability Claims Management, Internal Audit Report No. 24-510

### **Overview**

The Internal Audit Department of the Orange County Transportation Authority has completed a review of liability claims management. Based on the audit, controls related to administration and management of general liability claims, and identification and management of subrogation claims are adequate and functioning.

### **Recommendation**

Receive and file Liability Claims Management, Internal Audit Report No. 24-510, as an information item.

### **Background**

The Risk Management Department (Department) within the People and Community Engagement Division is responsible for liability claims management, including the self-insurance program, liability claims investigation and management, and subrogation claims investigation and management.

The Orange County Transportation Authority (OCTA) is self-insured for its general liability program. Annually, the Department provides loss activity information to AMI Risk Consultants, Inc. (AMI), who prepare an estimate of outstanding losses. As of June 30, 2023, AMI estimated outstanding losses of \$6.1 million and OCTA held \$14 million in reserves.

All claims documentation, correspondence, adjuster notes, and settlement approvals are contained within the Origami system. Once a claim is received, an adjuster opens an electronic claim file in Origami and performs an investigation

to determine if OCTA is liable. Written notice to accept or deny the claim is provided to the claimant within 45 days, in accordance with the government code and the Liability Claims Procedure Manual (procedures). For accepted or partially accepted claims, the adjuster prepares a settlement agreement that is reviewed and approved in the system in accordance with settlement authorities outlined in procedures. Once the settlement agreement is signed by the claimant and approved, the request for payment is forwarded to accounts payable for processing. For denied claims, the adjuster prepares a written denial letter to the claimant and notifies the claimant that a lawsuit may be filed within six months from the filing date of the claim. Any legal summons' received are forwarded to legal counsel for handling.

The Department is also responsible for filing subrogation claims to recover damages from external third parties or their insurance company. Adjusters review incident reports, repair estimates, and other relevant information and determine whether recovery efforts would be cost-effective. When there is subrogation potential, the adjuster opens an electronic claim file in Origami and calculates the recovery amount and prepares a subrogation claim demand.

### ***Discussion***

Department staff have developed procedures for the administration and management of general liability claims and subrogation claims. The audit found that management has implemented adequate controls related to the self-insurance program, liability claims investigation and management, and subrogation claims management.

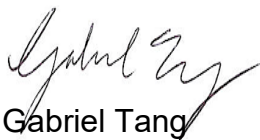
### ***Summary***

Internal Audit has completed an audit of Liability Claims Management.

### ***Attachment***

A. Liability Claims Management, Internal Audit Report No. 24-510

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**Approved by:**



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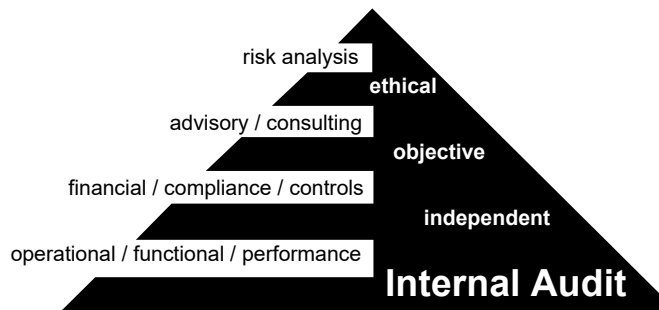
# ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



## Liability Claims Management

### Internal Audit Report No. 24-510

May 23, 2024



**Audit Team:**

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**ORANGE COUNTY TRANSPORTATION AUTHORITY  
INTERNAL AUDIT DEPARTMENT  
Liability Claims Management  
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## **Conclusion**

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed a review of liability claims management. Based on the audit, controls related to administration and management of general liability claims and identification and management of subrogation claims are adequate and functioning.

## **Background**

The Risk Management Department (Department) within the People and Community Engagement Division (PACE) is responsible for liability claims management, including the self-insurance program, liability claims investigation and management, and subrogation claims investigation and management.

OCTA is fully self-insured for its general liability program. Annually, the Department provides loss activity information to AMI Risk Consultants, Inc. (AMI), who prepare an estimate of outstanding losses. As of June 30, 2023, AMI estimated outstanding losses of \$6.1 million and OCTA held \$14 million in reserves.

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**ORANGE COUNTY TRANSPORTATION AUTHORITY**  
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**Liability Claims Management**  
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## **Objectives, Scope, and Methodology**

The objectives were to assess and test controls related to administration and management of general liability and subrogation claims.

According to Generally Accepted Government Auditing Standards (GAGAS), internal control is the system of processes that an entity's oversight body, management, and other personnel implement to provide reasonable assurance that the organization will achieve its operational, reporting, and compliance objectives. The five components are control environment, risk assessment, control activities, information and communication, and monitoring.<sup>1</sup> The components and principles that were evaluated as part of this audit are:

- Risk Assessment
  - OCTA identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
- Control Activities
  - OCTA selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
  - OCTA deploys control activities through policies that establish what is expected and procedures that put policies into action.

The methodology consisted of verifying that OCTA has adequate reserves to cover the self-insurance program, testing a judgmental sample of claims investigations, with a bias for coverage of denied claims, accepted claims, and litigated claims, for compliance with government code, written procedures, and payment policy, testing a judgmental sample of subrogation claims of varying amounts for evidence of review and collection and testing a judgmental sample of incidents recorded in the Intelligent Transportation Management System (ITMS) dispatch system with a bias for incidents indicating rear-end damage incurred as a result of a third party to determine whether the incident was reviewed for possible subrogation. Since the samples were non-statistical, any conclusions were limited to the sample items tested.

The scope was limited to the liability actuarial review performed for fiscal year 2023, liability claims closed during the period January 1, 2022 through December 31, 2023, subrogation claims entered into the Origami system during the same period, and incidents recorded in the ITMS dispatch system during the period January 1, 2022 through December 31, 2023.

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<sup>1</sup> See U.S. Government Accountability Office publication, "Standards for Internal Control in the Federal Government," available at <http://www.gao.gov/products/GAO-14-704G>, for more information.

**ORANGE COUNTY TRANSPORTATION AUTHORITY  
INTERNAL AUDIT DEPARTMENT  
Liability Claims Management  
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Internal Audit conducted this performance audit in accordance with GAGAS. 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.