April 21, 2022

CLAIMS SECTION PERFORMANCE AUDIT

Project #21-CSA-01

A Report to:

Commissioners:
Chair, Keith E. Bell
Vice Chair, Howard A. Denis
Fausto R. Bayonet
T. Eloise Foster
Chris Lawson
Regina Y. Speed-Bost

General Manager/CEO:
Carla A. Reid

Corporate Secretary:
Julianne M. Montes De Oca

Washington Suburban Sanitary Commission

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WSSC WATER
DELIVERING THE ESSENTIAL

TO: CHAIR BELL, VICE CHAIR DENIS
COMMISSIONER BAYONET, COMMISSIONER FOSTER,
COMMISSIONER LAWSON, AND COMMISSIONER SPEED-BOST
GENERAL MANAGER REID

THRU: JON T. RYMER, INSPECTOR GENERAL
OFFICE OF THE INSPECTOR GENERAL

DS
JR

THRU: MAXENE M. BARDWELL, ASSISTANT INSPECTOR GENERAL FOR AUDIT
OFFICE OF THE INSPECTOR GENERAL

DS
MB

FROM: DIGDEM TOK, AUDITOR
OFFICE OF THE INSPECTOR GENERAL

DS
DT

DATE: APRIL 21, 2022

SUBJECT: **CLAIMS SECTION PERFORMANCE AUDIT**

We have performed an audit of Claims Section Performance. The detailed report is attached for your review. The OIG conducted the audit in accordance with the International Professional Practice of Internal Auditing (*Standards*) and the Generally Accepted Government Auditing Standards (GAGAS), except for the peer review requirement. We have already discussed with management issues of concern and their action plans are included in this report.

We appreciate the assistance provided by Claims Section and other personnel. We hope the information and recommendations presented in our report are helpful.

Attachment

cc: Corporate Secretary, (J. Montes De Oca)
General Counsel's Office, (R. Beers)
Chief Strategy and Innovations Officer, (T. Allen)
Claims Manager, (S. Howell)

Washington Suburban Sanitary Commission
Office of the Inspector General

21-CSA-01
April 21, 2022

Quick Look

Claims Section Performance Audit

Why the OIG did this audit

In accordance with the Fiscal Year 2021 Risk-Based Work Plan, the Office of the Inspector General (OIG) conducted a performance audit of the Washington Suburban Sanitary Commission (WSSC) General Counsel's Office's Claims Section. The OIG conducted the audit in accordance with Generally Accepted Government Auditing Standards, except for the peer review requirement.

The Claims Section manages claims from WSSC customers alleging damage or losses caused by sewer back-ups, water main breaks, discolored water, and incidents involving WSSC vehicles, assets and work. The claims management process is governed by Maryland Annotated Code, PUA, § 17-407, Chapter 3.10, Procedure for Resolving Water and Sewer Claims (Procedure), of the WSSC's Code of Regulations (Code), and the Claims Section's Standard Procedure.

Strategic Alignment

This report addresses WSSC Strategic Priority: Spend Customer Dollars Wisely.

OIG Contact Information

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What the OIG found

The OIG assessed whether the Claims Section is operating in accordance with the laws of the State of Maryland and WSSC's regulations, policies, and procedures as it pertains to the efficient and effective management of claims. The audit period covered the last six months of fiscal year 2018, and fiscal year 2019. The audit scope included regulations, policies, procedures, management, processes, practices and disposition of claims in the Claims Section.

The OIG observed the following deficiencies:

- Insufficient or missing supporting documentation;
- Lack of adequately segregated system authorization privileges for senior staff;
- Inappropriate Claims Management System Vendor Access Privileges; and
- Untimely claims evaluations.

The OIG presented the following recommendations to Claims Section management to enhance its procedures and processes:

- Consistently comply with the WSSC Procedure;
- Develop and implement detailed written guidelines to capture current practices;
- Segregate the user's authorization privileges based on daily job functions;
- Restrict vendor access rights to the claims management system and review user access rights periodically;
- Consistently comply with WSSC and Claims Section evaluation period procedures.

Management addressed each of the OIG's recommendations and presented operational improvements or provided corrective action plans with anticipated due dates, where applicable.

Claims Section Performance Audit
04/21/2022
OG – 20220104-021010

Table of Contents

EXECUTIVE SUMMARY

Background

In accordance with the Washington Suburban Sanitary Commission's (WSSC) Office of the Inspector General's (OIG) Fiscal Year (FY) 2021 Risk-Based Work Plan, and the authority granted to it pursuant to the Maryland Annotated Code, Public Utilities Article (PUA), § 17-605 (a)(6), the OIG conducted a performance audit[1] of the WSSC's General Counsel's Office's Claims Section. The OIG conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), except for the peer review requirement.

The Claims Section manages claims[2] from WSSC customers alleging damage or losses caused by sewer back-ups, water main breaks, discolored water, and incidents involving WSSC vehicles, assets and work. The claims management process is governed by Maryland Annotated Code, PUA, § 17-407, Chapter 3.10, Procedure for Resolving Water and Sewer Claims (Procedure), of the WSSC's Code of Regulations (Code), and the Claims Section's Standard Procedure.

Objective

The audit's objective is to determine whether the Claims Section is operating in accordance with the laws of the State of Maryland and WSSC's regulations, policies, and procedures as it pertains to the efficient and effective management of claims.

Scope and Methodology

The audit scope period is the last six months of fiscal year 2018, and fiscal year 2019. The audit scope included reviewing regulations, policies, procedures, management, processes, practices and disposition of claims in the Claims Section.

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[1] *See* U.S. Government Accountability Office (GAO), Government Auditing Standards-2018 Revision (Yellow Book), §§ 1.21 and 1.22(c) (stating that performance audits provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight with, among other things, improving program performance and operations, reducing costs, facilitating decision making by parties and contributing to public accountability; and relate to an assessment of compliance with criteria established by provisions of laws, regulations, contracts, and grant agreements, or other requirements).

[2] The Claims Section does not manage claims categorized as "no fault" claims. According to WSSC 3.10.020 (f), "no fault" means the payment, regardless of legal liability, of damages resulting from a sewer backup or water main when such lines are maintained by WSSC as authorized by PUA, § 17-407, of the Annotated Code of Maryland. According to PUA, § 17-407 (a)(1), except as provided in subsection (b) of this section, in accordance with its regulations, the Commission may pay for actual property damage caused by: (i) a sanitary sewer backup; or (ii) a water main break on or after October 1, 1999.

Conclusion

The OIG observed the following:

- Insufficient or missing supporting documentation;
- Lack of adequately segregated system authorization privileges for senior staff;
- Inappropriate Claims Management System Vendor Access Privileges; and
- Untimely claims evaluations.

The audit result disclosed that the WSSC Claims Section's operations warrant improvement in the management of claims to assure compliance and consistency with WSSC regulations, policies and procedures. Less significant internal control deficiencies (low rated issues) associated with this engagement have been communicated to appropriate WSSC management in a separate OIG Memorandum. The OIG appreciates the assistance and cooperation provided by Claims Section personnel throughout this audit engagement.

FINDINGS, MANAGEMENT RESPONSES, AND ACTION PLANS

Finding 1: Insufficient or missing supporting documentation
Risk Rating: Medium

Claim files reviewed did not contain supporting documents, such as itemized inventory lists and mitigation reports, to enable the Claims Section to verify the values and descriptions of property allegedly damaged or lost. Six out of nine (66%) claim files reviewed for over $50,000 in claims disclosed that the Claims Section relied upon information provided solely by the claimant to conduct valuations of the property. For example, the claimant may have submitted an inventory list, but an itemized inventory list from the mitigation company contracted by WSSC to verify the alleged damages was not obtained. Additionally, one of the claims settled alleged damage to high value personal property, including designer purses and jewelry, but the file did not contain documentation evidencing valuation of the items described.

On another processed claim, an estimate provided by the claimant's contractor was solely relied upon, instead of obtaining an itemized inventory list or mitigation report from an independent vendor contracted by WSSC. The OIG auditors also reviewed a settlement of another property damage claim file where the claimant had a pre-existing structural condition, but the file did not contain documentation confirming WSSC's liability or the basis for settlement.

Concerning the disposition of personal property, WSSC 3.10.030 (c) states that "[t]he claims representative will determine the circumstances and the extent of the damages." Further, the claimant is required to provide documents to include: (1) a list of the damaged property, including the ages of all items claimed; (2) furnish copies of all available receipts or other basis for estimated replacement costs, including bills or any other documentation required to support the request for reimbursement; and (3) provide all required homeowner's insurance information.[3] The Section's Claims Standard Procedure corroborates that documentation is required in the claims management process, and more importantly, expressly states in Section 9.0 that "documentation must be in every file to support the liability determination."

[3] *See* WSSC Code 3.10.030 (c)(1)(2) and (5).

While there are written requirements that the Claims Section obtain documents from the claimant to substantiate the claimed property damage or loss, there is no written requirement that WSSC must obtain an independent itemized inventory list or mitigation report to verify the alleged property damaged or lost.[4] Management reasoned that staff may have received documentation from the mitigation company that manages and conducts site inspections and inventories but failed to store the data in the file.

OIG identified the following consequences that may result if claims are paid/settled without proper documentation and lack of written procedures:

- Inability to determine WSSC's liability or accurately assess the value of the property damage for settlement purposes;
- Distrust in WSSC's claims management process;
- Inconsistency in paid claims;
- Increased risk of litigation due to inconsistent practice; and
- Remitting payments to claimants for fraudulent or unsubstantiated claims.

Recommendation 1A: Consistently comply with the WSSC Procedure

The OIG recommends the Claims Section complies with WSSC 3.10.030 (c) and Section 9.0 of its internal operating procedure by requiring all documents be stored in the claim file to assist in the proper and effective recordation, evaluation and disposition of claims.

Recommendation 1B: Develop and implement detailed written guidelines to capture current practices

OIG recommends management develop and implement written procedures that encompasses its current practice, which entails obtaining the mitigation company's inventory list to reduce the risk of inconsistent evaluation of claims. Written procedures regarding valuation of property damage may provide detailed guidance to staff and assist in the consistent and effective disposition of equitable claims.

Management Response and Action Plan (including anticipated due date):

Management agrees that the proper documentation of damages is an important process of appropriate claims resolution practices. It reminds the OIG that just six months prior to the beginning of the audit period, claims was reorganized to become part of the General Counsel's Office. It had previously been located in the Customer Services team. It should be noted that when Claims was part of Customer Service, the Claims Agent 1's were dedicated two weeks a month to

[4] WSSC 3.10.030 (c) states in pertinent part that the claimant will be advised to (1) provide a list of the damaged property, including the ages of all items claimed; (2) furnish copies of all available receipts or other basis for estimated replacement costs, including bills or any other documentation required to support the request for reimbursement; (3) allow for inspection of the damaged property, as often as is reasonably necessary; and (4) make reasonable efforts to protect the damaged property from further damage or destruction; and (5) provide all required homeowner's insurance information. Additionally, Section 9 of the Claims Section Claims Standard Procedure states that "documentation must be in every file to support the liability determination," and that the file should include "receipt of investigation materials, list of damage property, invoices, receipts, estimates, medical reports/bills, and any information that affects or changes the liability or damage opinion."

responding to calls and two weeks a month handling claims.[5] *When the reorganization took place, all the Agents1 opted to go to Claims. This reorganization was done since challenges with Claims predated the transition to the GCO. As part of that transition, a full time Claims Manager was hired on June 5, 2017, internal operating procedures were put in place, and management began the work necessary to make these practices part of the claims handling culture. Additionally, in this audit time period, the mitigation company was submitting their estimates, invoices and inventory lists on CD-Roms. The documents contained on the CD-Roms were not made part of the electronic file because the agents were still adjusting to the newly imposed enhanced documentation requirements.*

Management believes that the Observation has already been rectified, in that a review of more recent claims would find compliance with the documentation requirements outlined by the Standard Operating Procedure. Out of an abundance of caution, Management will include more specific guidelines concerning the evaluation of property damage claims as part of a significant updating of the SOP now in process. It anticipates being able to complete this entire action by August 1, 2022.

Comment from the Office of the Inspector General

The OIG accepts management's response. Once management provides documented evidence that addresses the recommendations, as a part of its follow-up process, the OIG will review and determine if it is responsive to the recommendation.

Finding 2: Lack of adequately segregated system authorization privileges for senior staff
Risk Rating: Medium

The authorization privileges of the Claims Section senior staff are not adequately segregated in the JDI claims management system (JDI). During this review, the OIG found that the Claims Section Supervisor and Manager have the ability to add, edit and approve the settlement of claims up to $19,000 and $25,000, respectively. Further, the Claims Manager also serves as WSSC's JDI system administrator and is allowed to add and delete users. We did not uncover any evidence to support that the Claims Section Supervisor or Manager unilaterally entered and settled a claim in JDI. However, the current access and administrative rights in the JDI system permits them the discretion to enter and settle claims within their authority.

According to the *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States, "as part of delegating authority, management evaluates the delegation for proper segregation of duties within the unit and in the organizational structure."[6] Further, these *Standards* also state that "segregation of duties helps prevent fraud, waste, and abuse in the entity by considering the need to separate authority, custody, and accounting in the organizational structure."[7]

Currently, authorization privileges for the JDI claims management system are not properly segregated to align with the duties of the Claims Section senior staff or protect against discretionary and unregulated actions.

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5 This was changed from one week on claims three weeks on calls when the number of claims not promptly addressed became too large.
6 *See* GAO's Standards for Internal Control in the Federal Government, Green Book, Principle 3, ¶ 3.08 (September 2014).
7 *See Id*.

The absence of proper segregation of system authorization privileges may create potential errors and the appearance of improper or unsubstantiated claim approvals. These employees may also be able to both perpetrate and conceal errors or commit fraud in the normal course of their duties.

Recommendation 2: Segregate the user's authorization privileges based on daily job functions

The OIG recommends removing or changing authorization privileges for creating, editing and deleting new claims. For example, the system authorization levels should be changed to prevent employees from posting new claims in the claims management system unless there is a resource staffing issue and compensating monitoring controls exist. We also recommend management review the authorization privilege level of the claims management system on a periodic basis based on employees' job functions and make adjustments when appropriate.

Failure to establish internal controls pertaining to effective segregation of duties may increase the potential for errors in unauthorized changes and approvals of claims. Segregation of duties is recommended as a preventative control.

Management Response and Action Plan (including anticipated due date):

Management disagrees with this Observation. It also believes there may be some confusion between levels of settlement authority and the management of the input, assignment and handling of claims in the JDI system. Per the Subdelegation of Authority, the Claims Supervisor has authority to approve the settlement of claims up to $20,000 and the Claims Manager has $25,000 of approval authority. Any settlement above that number would have to be approved by someone with higher authority level. The approval hierarchy includes the Deputy General Counsel, the General Counsel, the General Manager/CEO and ultimately the Commissioners on claims that exceed the General Manager/CEO's authority.

The entering, documenting and closing of claims in the JDI system is an entirely different and separate process and does not relate to the settlement of claims. Claims are entered only by the administrative assistants in the Claims office. The system identifies the person who entered the claim. Once entered, claims are then reviewed and assigned by either the Claims Manager or the Claims Supervisor. A claim cannot be deleted once entered into the system. Likewise, a note entered into the system cannot be deleted.

In addition to the subdelegation of authority as noted above, there is a second level of internal control as to the settlement of claims in place to ensure that a claims manager, supervisor, or claims agent does not exceed the subdelegation of authority. This internal control relates to the process by which settlement checks are issued. When a Claims Agent resolves a claim, the process used to issue a check requires them to enter the information into the JDI to create a voucher. Those vouchers are printed once a week and delivered to Accounts Payable. If the voucher is for an amount exceeding the Agent's authority, the voucher has to be approved by someone in the system who has the appropriate level of authority before it can be printed and delivered to Finance. This occurs even though the agent would have already had to obtain appropriate authority approval prior to settling the claim or entering the voucher information into the system. For example, if the claims manager proposes a settlement of $30,000, which exceeds the subdelegated amount of $25,000, the Deputy General Counsel has to go into JDI and approve it before a voucher could be printed and delivered to Finance. In other words, a check could not be issued by Finance if the employee did not have the subdelegated authority to settle the claim.

Finally to address concerns raised by the Observation, Management agrees that it will eliminate the Claims Supervisor's ability to enter claims in the JDI system, while keeping the Claims manager's ability to do so, to address operational needs should the admins be unavailable. As a further control, the Claims Manager will copy the Deputy General Counsel on the weekly report now sent to Accounting listing all claims payments made that week. The Deputy General Counsel will review these reports weekly. This new procedure will be included in the revision of the Internal Operating Procedure to be completed by August 1, 2022.

Comment from the Office of the Inspector General

The OIG accepts management's response as stated in the last paragraph. Once management provides documented evidence that addresses the recommendation, as a part of its follow-up process, the OIG will review and determine if it is responsive.

Finding 3: Inappropriate Claims Management System Vendor Access Privileges
Risk Rating: Medium

During this audit, the OIG observed that the vendor for the claims management system has access as an administrator and a claims administration vendor. According to § 10.80.030 (d) of WSSC's Manual of Standard Procedures (SP), the WSSC Information Technology Department (IT) prohibits external vendors from having access to WSSC's internal technology systems unless there is a valid agreement. While the vendor does not have the authority to approve claims in the system, similar to the Claims Section manager, the vendor has authority to add or modify claims.

Section 10.80.030 (d) of the SP states "[b]efore any third-party is given network access to WSSC systems, a contract defining the terms and conditions of such access must have been signed by a responsible manager at the third-party organization." Additionally, it requires the contract to include the WSSC IT policy.[8] Section 10.80.030 (k) of the SP requires the user be reevaluated, at a minimum, annually by the Business Unit Management. Further, pursuant to Principle 12 of the GAO's *Standards for Internal Control*, "management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related."[9]

Auditors observed that the vendor system access rights are not reviewed to ensure that access to critical claims management data is appropriate.

The absence of conducting a user access review as required by SP § 10.80.030 (k), may enable vendors and others to have unrestricted access to the claims management system. This increases the risk of unauthorized access to confidential customer data and the ability to perform unauthorized claims activities.

[8] *See* SP § 10.80.030 (d).
[9] *See* Green Book, ¶ 12.05.

Recommendation 3: Restrict vendor access rights to the claims management system and review user access rights periodically

The OIG recommends management immediately restrict vendor access to the claims management system and review access rights on a periodic basis. Inappropriate access may allow users to be in a position to perpetrate fraud in the claims management system.

Management Response and Action Plan (including anticipated due date):

Management agrees with the finding. Claims was under the impression that access by the vendor to the system was eliminated in the latter part of 2020. It turns out, there was a second account that had not been deactivated, that has been taken care of on February 14, 2022.

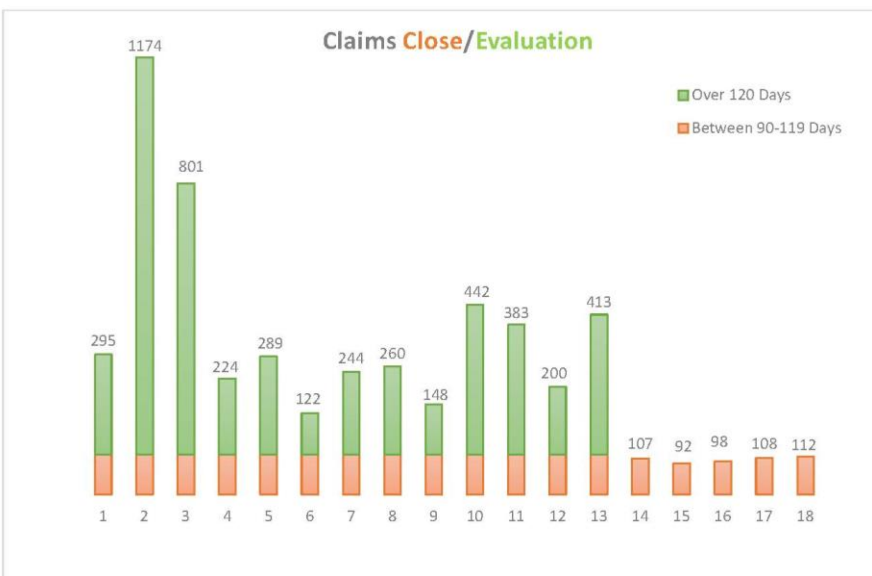
Because the vendor no longer has access to the system, the Claims Manager has monthly calls with the vendor in order to satisfy the vendor's concerns about the number of licensed users. The restricted access by the vendor has affected the ability to change coding, get assistance in running reports, or making other adjustments to the system. Moving forward, Claims will explore obtaining access for the vendor pursuit to the requirements of the Standard Procedure. This should allow for easier modification and streamlining of the JDI system.

Comment from the Office of the Inspector General

The OIG accepts management's response. Once management provides documented evidence that addresses the recommendation, as a part of its follow-up process, the OIG will review and determine if it is responsive.

Finding 4: Untimely claims evaluations
Risk Rating: Medium

Claims were not evaluated in a timely manner in accordance with the WSSC Code. The chart below shows the 13 out of 29 (44%) claims reviewed were not evaluated within the 120-day period as stated in the WSSC Chapter 3.10. The chart also demonstrates that 18 out of 29 (62%) claims, that the OIG reviewed, were not closed in accordance with the 90-day period established by the Claims Section's internal closure goal.



WSSC 3.10.030 (e) states that "[e]valuating a claim typically takes a claim representative between 30 and 120 days from receipt of all documentation, depending on the nature and size of the claim." Additionally, the Claims Section provided the OIG internal guidelines that conveyed to staff an expectation of closing claims within 90 days.[10] This expectation aligns with the Claims Section's Claims Standard Procedure which requires claims agents to maintain 30, 60 and 90-day diaries to track the claim's progress, and that "under no circumstances shall diary reviews exceed 90 days."

According to management, the delays in the claims processing were due to staff turnover, insufficient training, and outdated internal operating procedures which existed during the period audited.

When claims are not timely evaluated, the Claims Section is not in compliance with WSSC Chapter 3.10 and may not meet its own goal of closing claims within 90 days. This may also result in inconsistencies in the claims management process.

Recommendation 4: Consistently Comply with WSSC and Claims Section Evaluation Period Procedures

The OIG recommends consistent compliance with WSSC and the Claims Section's procedures. If claims are not timely processed, the Claims Section may also forego the ability to settle and dispose claims in an efficient and effective manner.

Management Response and Action Plan (including anticipated due date):

Management understands that all of the claims reviewed by the OIG were property damage claims resulting from sewer backups or watermain breaks only which raises two concerns. First, the 90 day or 120-day clock does not begin to run until "receipt of all documentation" necessary to resolve the claim[11]. There is no indication that the OIG took this factor into consideration when calculating the days, it took to settle the claim. For example, if the OIG calculated the days to settlement starting at the day when the claim was received and entered rather than when the final documents were received this could result in the addition of significant time added the amount of days open. Moreover the regulation regarding the settlement of these claims takes into account the fact that "the nature and size of the claim" can be a factor in how long it takes to resolve it.[12] The audit report states that at least nine of the claims were claims that involved damages in excess of $50,000. Damages that exceed $50,000 tend to be complicated claims which take longer to review, analyze and resolve.

Finally, management ran the attached report, generated by using the report building features of the JDI software, during the audit period Claims opened 1,785 claims and closed 1,514 claims. The same report says that the average claims day open on those claims was 92 days.[13] The Observation appears to be based on the review of 29 claims which would represent less than 2% of

[10] On April 2, 2021, the Russel Beers, Deputy General Counsel of WSSC's of the General Counsel's Office provided a power point presentation outlining the claims process including the 90-day closure deadline.

[11] *WSSC Code of Regulations §3.10.030(e). The Internal Operating Procedure is silent on this deadline issue.*
[12] *Id.*
[13] *It should be noted that these numbers include claims for bodily injury which as noted above take longer to resolve on average.*

claims closed during the year. As indicated by the average days open shown in this report, Claims came very close to meeting its 90-day closure goal and was well within the 120 days required by the regulation. Management notes that claims days open performance has only improved over time. In FY 21, Claims opened 1080 new claims and closed 909 claims. Thus, in FY 21 the average claims day open was 61 days which far exceeds both the requirement of the regulation, 120 days, and the goal set by Management, 90 days.

Comment from the Office of the Inspector General

Although management does not state whether it agrees with OIG's recommendation, management should adhere to the 120-day deadline for evaluating property claims as set forth in WSSC Code 3.10.030 (e) and its internal established goal of resolving claims in general within 90 days. As such, the OIG will review management's FY 21 claims and the documents provided, as a part of its follow-up process, to determine if management has met the requirements of the regulation, and its internal closure goal.

cc: General Manager/CEO, (C. Reid)
General Counsel's Office, (R. Beers)
Chief Strategy & Innovation Officer, (T. Allen)
Claims Manager, (S. Howell)