



# County of Riverside

## Internal Audit Report

2008-023

**Human Resources Department,  
Medical Malpractice Insurance Program**

March 11, 2009

Office of  
**Robert E. Byrd, CGFM**  
County Auditor-Controller

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March 11, 2009

Ron W. Komers, Assistant CEO/Human Resources Director  
Human Resources Department  
County of Riverside  
4080 Lemon Street  
Riverside, CA 92502

**Subject: Internal Audit Report 2008-023: Human Resources Department, Medical Malpractice Insurance Program**

Dear Mr. Komers,

We have completed an audit of the County of Riverside Human Resources department, medical malpractice insurance program. We conducted the audit during the period May 25, 2008, through October 15, 2008, for operations of July 1, 2007, through June 30, 2008.

Our purpose was to provide management and the Board of Supervisors with an independent assessment about the adequacy and effectiveness of internal controls over the medical malpractice insurance program. Specifically, we evaluated the internal controls over the processing of malpractice insurance claims, the maintenance of claim files, the risk management process, and contract compliance with external parties.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance that our objective, as described in the preceding paragraph, is achieved. Additionally, the standards require that we conduct the audit to provide sufficient, reliable, and relevant evidence to achieve the audit objectives. We believe the audit provides a reasonable basis for our opinion.

In our opinion, the department has adequate internal controls in place over the processing of malpractice insurance claims, the maintenance of claim files, the risk management process, and contract compliance with external parties. Although we identified an area for improvement relating to the master coding form process, management took action during the course of the audit to correct the weakness identified prior to the completion of the audit. The corrective action taken by management successfully addressed the weakness identified.

Throughout the audit, we discussed the results contained in this report, as well as comments and suggestions of lesser significance, with the appropriate level of management.

We thank Human Resources department management and staff for their cooperation. Their assistance contributed significantly to the successful completion of this audit.

Robert E. Byrd, CGFM  
Auditor-Controller

A handwritten signature in black ink, appearing to read "M. Alexander", written over a horizontal line.

By: Michael G. Alexander, MBA, CIA  
Deputy Auditor-Controller

cc: Board of Supervisors  
County Counsel  
Executive Office  
Grand Jury  
Jim Sessions, Risk Management

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## **Executive Summary**

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### **Audit Objective**

Our purpose was to provide management and the Board of Supervisors with an independent assessment about the adequacy and effectiveness of internal controls over the medical malpractice insurance program. Specifically, we evaluated the internal controls over the processing of malpractice insurance claims, the maintenance of claim files, the risk management process, and contract compliance with external parties.

### **Overview**

The medical malpractice insurance program is operated by the Risk Management division of the Human Resources department. Risk Management's stated mission is "To protect the County of Riverside's resources (human and financial) from the risk of losses, by managing the risks through identifying and analyzing loss exposures (property, liability, earnings, personnel); examining the feasibility of alternative risk management techniques (risk control, risk financing); selecting the most appropriate risk management alternative to control exposures; implementing the best alternatives to resolve problems; and monitor risk management programs designed to meet intended goals."

Under the medical malpractice program the county is responsible for the first \$1,100,000 of each loss. The county's medical malpractice coverage excess of the self-insured retention is provided by the California State Association of Counties/Excess Insurance Authority (CSAC/EIA). CSAC/EIA is a pooling/group purchase program consisting of other government agencies and was formed as a joint powers authority in 1979. The county's medical malpractice program is managed by the County of Riverside Human Resources department, Risk Management division.

The medical malpractice program covers any claims filed against the county for death, personal injury and property damage caused at the county's health facilities or by their professionals. The county's policy provides coverage for all county employees, professional service contractors, students, authorized volunteers, trainees and others acting on behalf of the county in a county health facility or clinic. As Risk Management becomes aware of pending claims they establish a monetary reserve to cover the expected claim expenditures. These reserves are increased or decreased based on information obtained during the adjudication process.

The following is a three-year summary of medical malpractice claims:

	2005/2006	2006/2007	2007/2008	<b>TOTAL</b>
Claims Reported	56	64	76	<b>196</b>
Indemnity Paid	\$844,405	\$1,173,675	\$666,750	<b>\$2,684,830</b>

**Audit Methodology**

To accomplish our objectives, we:

- conducted interviews and performed a walk-through with department personnel;
- conducted Internet research specific to medical malpractice insurance including general background information and best practices;
- identified and reviewed applicable policies and procedures, Board ordinances, laws, codes, and regulations;
- observed the claim filing process;
- observed, documented and analyzed the current open and closed claim files;
- verified compliance with the CSAC/EIA claims handling guidelines; and
- performed testing of reserves and approval levels for each position.

**Overall Conclusion**

In our, opinion, the department has adequate internal controls in place over the processing of malpractice insurance claims, the maintenance of claim files, the risk management process, and contract compliance with external parties. Although we identified an area for improvement relating to the master coding form, management took action during the course of the audit to correct the weakness identified prior to the completion of the audit. The corrective action taken by management successfully addressed the weakness identified.

Details about our audit methodology and results are provided in the body of our report.

## **Results**

### **Claim Files**

The Risk Management division maintains a claim file for every medical malpractice claim that is filed against the County of Riverside. Medical malpractice claims are filed for death, personal injury and property damage caused at the county's health facilities or by their professionals. Per Government code section 911.2, the claim must be filed no later than six months after an occurrence of wrongful death, personal injury or property damage. Claims are to be filed with the Clerk of the Board for the County of Riverside. The Clerk of the Board forwards the claim to the Risk Management division for processing.

Government code section 913 requires the county to give written notice of action on the claim within 45 days. Therefore, the gathering and timely securing of pertinent and relevant information is essential to the efficient and effective handling of claims.

CSAC/EIA requires member agencies to compile claim files in accordance with the generally acceptable claims handling standards. These standards cover several topics including: general procedures, instructions for administering a claim and required forms. CSAC/EIA requires participating agencies to have an audit every three years. The Risk Management division has been proactive and has requested an audit be completed every year. We reviewed the audits conducted by the external auditor for the past three years and also consulted with the auditor. Our review determined the Risk Management division has exceeded the generally acceptable claims handling standards. The auditor also noted the Risk Management staff does an exceptional job working with the external legal counsel and the defense costs were below what is normally charged for a public entity medical malpractice claim. Our further review of the claim files found the services of the legal counsel were obtained in accordance with county purchasing requirements.

We selected a sample of claim files to determine if internal controls are adequate to ensure the claim files are handled in accordance with the generally accepted claims handling standards including the required Health Insurance Portability and Accountability Act (HIPAA) forms.

We found the files were maintained according to the generally acceptable claims standards, the files contained complete and relevant claim information, were well organized and reflect a detailed analysis of the malpractice claim. The files contained the required HIPAA forms and are maintained in a storage room with

all other Risk Management division files. This area is open to all division employees; however, HIPAA requirements have not been impaired because a claim is considered public information once the claimant files a claim against a public entity.

Our review noted the reserves were appropriate for the information obtained to date on the potential liability and damages. However, the current form utilized by the Risk Management division did not contain a signature line and date to note the original reserve amount established in the initial set-up under the master coding form. Without the signature line and date, it was not easy to determine who set the reserves and if the reserves were established in accordance with the adjuster's approved limits. The lack of the signature line and date precludes a reviewer from identifying an audit trail. Although we identified this area for improvement management took action during the course of the audit to correct the weakness prior to the completion of the audit. The forms were updated to include a signature line and date. Additionally, the desk procedures were updated and distributed to Risk Management staff. The corrective action taken by management successfully addressed the weakness identified.



## **Results**

### **Risk Management Process**

Risk Management's stated mission includes protecting the county's resources by minimizing the risk of loss. We tested the internal controls over the risk management process to determine if adequate procedures have been developed to identify and analyze risks, decrease exposures and monitor the results of the risk management programs.

The Risk Management division has taken several steps to improve the risk management process. They have initiated a successful collaboration with the Riverside County Regional Medical Center (RCRMC). The collaboration has allowed the Risk Management staff to participate in the following at RCRMC: quality assurance meetings, root-cause analysis meetings and trainings to decrease the likelihood of future events. Additionally, they now have a safety employee at RCRMC and are involved in the review of the professional service contract renewals. The open collaboration has also resulted in the Risk Management division being notified earlier of events that could result in claims against the county.

The Risk Management division has also created a dedicated medical malpractice insurance team which is responsible for the handling and processing of these claims. The dedicated team is knowledgeable about the codes and regulations applicable to medical malpractice claims which enables them to work in a timely manner. Additionally, the team works closely with legal counsel to develop an effective litigation management strategy to reduce the litigation time and costs.

The December 3, 2007, actuarial review of the medical malpractice insurance program noted a marked decrease in the anticipated claims and reserves. The decrease can be attributable to the effective risk management process implemented by the Risk Management division.