



February 27, 2019

**Performance Audit**

# City Vehicle Collision Repair

Department of Finance & Administrative Services

**Report No. 19-101**



**CITY OF ALBUQUERQUE  
OFFICE OF INTERNAL AUDIT**

PERFORMANCE AUDIT REPORT  
CITY VEHICLE COLLISION REPAIR  
DEPARTMENT OF FINANCE & ADMINISTRATIVE SERVICES  
REPORT NO. 19-101

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# City Vehicle Collision Repair

Performance Audit

February 27, 2019

Audit #19-101

The purpose of this audit was to determine if all accidents involving City vehicles are reported to Risk Management; if auto claims are reviewed to ensure that estimated repair costs are reasonable and proper; if totaled vehicles are properly assessed and supported; and if subrogation opportunities are properly pursued and documented.

## Executive Summary

Opportunities exist at the Department of Finance & Administrative Services (DFAS) for improved reporting, tracking, and processing of City vehicle collision repair.

The areas addressed throughout this report will help DFAS update and align its policies with operational practices and strengthen its management of contract performance. The audit identified that:

- The CAO Risk Manual has not been updated since June 1998 and does not align with current practices;
- The Third Party Administrator was not performing several important requirements of its contract including:
  - Independent test for cost reasonableness,
  - Preparing, obtaining, and comparing repair estimates,
  - Documenting vehicle damage, and
  - Reviewing vendor invoices for accuracy and contractual pricing compliance.
- Not all City vehicle accidents are reported to Risk Management; and
- Risk Management's master record of employees involved in vehicle accidents does not reflect all vehicle accidents.

The CAO concurred with the findings and will implement the recommendations.

## Recommendations

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The CAO should work with DFAS-Risk Management to update the CAO Risk Manual to align it with current practices and document:

- The City's threshold for determining total loss;
- The process for obtaining repair estimates prior to repair; and
- The applicability of salvage and deductible charges.

DFAS should:

- Ensure Third Party Administrators and vehicle collision vendors are in compliance with their contract requirements.
- Remind all City departments to report all vehicle collisions to Risk Management regardless of claims status or amount.
- Maintain a comprehensive database of City employee vehicle accidents for City Operator's Permit and Risk of Loss purposes.



# City of Albuquerque

*Office of Internal Audit*

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February 27, 2019

Accountability in Government Oversight Committee  
P.O. Box 1293  
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Audit: City Vehicle Collision Repair  
Department of Finance & Administrative Services  
Audit No. 19-101

**FINAL**

## INTRODUCTION

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The Office of Internal Audit (OIA) completed a performance audit of the City of Albuquerque's (City) process for City Vehicle Collision Repair for the period of July 1, 2016 through June 30, 2018. The audit was included in OIA's fiscal year (FY) 2019 audit plan. Information pertaining to the audit objectives, scope, limitations, and methodology can be found in **Appendix A**.

According to the Department of Finance & Administrative Services (DFAS) Risk Management division (Risk Management), the key objective regarding City vehicle collision repair is to "adequately and cost effectively repair City vehicles with limited down time".

Vehicle collision repair costs are paid from the Internal Service Fund 705 (Risk Management Fund). Internal Service Funds are established to finance, administer, and account for activities that provide goods or services to other departments on a cost-reimbursement basis. The City uses the Risk Management Fund to account for and finance its uninsured risk of loss. Section 2-8-2-8 ROA 1994, Risk Management Fund establishes the fund. Parts C and D state:

(C) Any money deposited into the Risk Management Fund may be expended to purchase liability insurance; to pay costs and expenses incurred in carrying out the provisions of this section; to defend, save harmless and indemnify any officer or employee of the municipality for any liability covered by the Tort Claims Act; and to create a retention fund adequate to cover all uninsured tort liability or other liability covered by the provisions of the Tort Liability Act.

(D) Each year the [City] Council shall appropriate to the Risk Management Fund such amounts as are necessary to purchase insurance or to provide adequate reserves for self-insured risks for which immunity has been waived by the New Mexico Tort Claims Act and liabilities of the City pursuant to the laws of New Mexico, this code and any applicable ordinances of the City, and the laws of the United States and other jurisdictions.

#### Information Technology – Origami

Risk Management uses Origami, a cloud-based risk management information system (RMIS), for administering and processing all of the City's various claims. For each claim, the system generates a unique claim number that incorporates the fiscal year, type of claim (e.g. auto physical, auto liability, workman's compensation, etc.), and sequential number. Origami maintains all claims activity and data files including supporting documentation (e.g., correspondence, invoices, photographs, accident reports, etc.).

#### Information Technology – AssetWorks

Various City departments and divisions including DFAS-Fleet Management, Transit Department, Solid Waste Management Department and Albuquerque Fire Rescue (AFR) use AssetWorks, a cloud-based fleet management system that tracks and manages the lifecycle and maintenance history for each vehicle. Examples of vehicle information contained in AssetWorks relevant to this audit includes vehicle repair work orders categorized as accidents. Each work order contains various details including the work order number, status, department, asset number (i.e., vehicle description/equipment ID), and repair/maintenance notes.

#### Third Party Administrator (TPA)

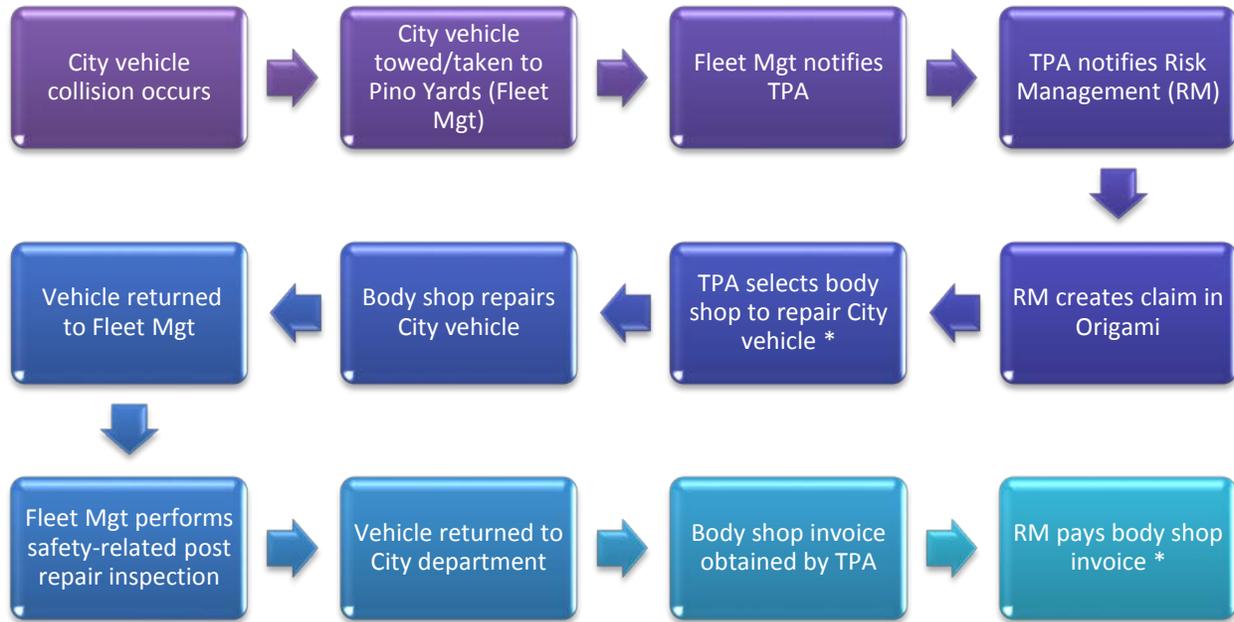
In 2014, the City issued a Request for Proposal (RFP) which sought proposals from qualified casualty-adjusting firms/individuals to provide investigative, adjusting and administrative services for Risk Management, and to consult with Risk Management to help assure claims are handled in a manner that is consistent with Risk Management objectives. At the time of the RFP, Crawford & Company, Inc. was the contracted, incumbent, TPA with the City.

Following the standard RFP process, Crawford & Company, Inc. submitted a response, was selected, and was awarded the City contract beginning January 1, 2015 through December 31, 2018. During the audit, the contract with Crawford & Company, Inc. expired and was not subsequently renewed by the City of Albuquerque.

In general, the TPA was working on behalf of the City and was responsible for providing one licensed claims adjuster and a second licensed claims adjuster to serve as a full-time/part-time back-up adjuster, as needed. The RFP contained the detailed oversight requirements and expectations of the TPA.

Vehicle Collision Repair Process

A high-level depiction of the standard vehicle collision repair process in place at the time of the audit is illustrated below.



\* Note: Per the RFP requirements, an independent estimate by the TPA was required to be prepared and compared to the body shop estimate prior to final selection of the body shop, and the final invoice was to be compared to the original estimate.

Audits performed by OIA often involve a review of the department’s internal controls. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) developed the Internal Control Framework (COSO Framework) to assist organizations in “designing, implementing, and conducting internal control and assessing its effectiveness.” The COSO Framework has gained global acceptance as the standard by which to compare internal controls, and OIA uses it to evaluate the design and effectiveness of the department’s internal controls.

OIA considered applicable internal controls in performing procedures relative to the four audit objectives found in Appendix A. The results of audit procedures identified opportunities for internal control improvements pertaining to the reporting of accidents, review of costs, and tracking of vehicle collisions relative to objectives one and two. However, no exceptions were noted in the performance of audit procedures for objectives three and four relative to Risk Management’s assessment of totaled vehicles and pursuit of subrogation.

## FINDINGS

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*The following findings address areas that OIA believes could be improved by the implementation of the related recommendations.*

1. THE CAO SHOULD WORK WITH DFAS-RISK MANAGEMENT TO UPDATE THE CAO RISK MANAGEMENT MANUAL TO ALIGN WITH CURRENT PRACTICES.

The current CAO Risk Manual has not been updated since June 1998 and does not address:

- The City's threshold for determining total loss;
- The process for obtaining repair estimates prior to repair; and
- The applicability of salvage and deductible charges.

COSO Principle 12 states that policies should be established that support management's directives and expectations. "Management should periodically reassess policies and procedures and related control activities for continued relevance and effectiveness...."

Operational practices have evolved over time, but the CAO Risk Manual has not been updated. Without documented procedures that are aligned with operational practices, inconsistent application could occur and historical knowledge may be lost should staffing changes occur.

The following sub-sections provide further details about the issues identified above.

### Threshold for Determining Total Loss

Although there is no formal policy for determining total loss, the contracted third party administrator at the time of the audit stated that vehicles were declared a total loss when estimated repair costs reached or exceeded 50 percent of the vehicle's National Automobile Dealers Association (NADA) value. The Tort Claims Manager stated that the industry standard for declaring a vehicle a total loss is 70 percent of the vehicle's value.

As the City's contract with the TPA expired December 31, 2018 and was not renewed, Risk Management is currently revising various processes and standards pertaining to City vehicle collision repair.

### Process for Obtaining Repair Estimates Prior to Repair

Section 5.14 of the CAO Risk Manual is titled "Estimates and Repair Procedures" but is silent on the requirements for obtaining, reviewing, and approving estimates

or comparing the original estimate to the final repair invoice.

Applicability of Salvage and Deductible Charges

From a sample of 24 auto-physical claims, six vehicles were declared a total loss. Of the six totaled vehicles, five belonged to APD. Of the five totaled APD vehicles, 20 percent salvage and the standard \$1,000 deductible had not been calculated or charged to the department.

While the CAO Risk Manual does not address processing salvage charges, Section 5.16 of the Manual states “Risk Management will pay the value of the vehicle less \$1,000 to the operating fund from which a replacement vehicle would be purchases.”

RECOMMENDATION

The CAO should work with Risk Management to review and update the CAO Risk Management Manual to ensure it addresses the City’s current operational practices.

RESPONSE FROM THE CAO

*“The Risk Management Division of the Department of Financial Administration and Services acknowledges that the Risk Management Manual is out of date and otherwise accepts the findings of the audit and will implement the recommendation to update the Risk Manual. DFAS and Risk Management are committed to revision of the Risk Manual to align with current practices in self-insured public entity risk management. The updated Manual will be revised to meet the requirements of the City Risk Management Ordinance §§2-8-2-8 et.seq. and otherwise clearly communicate the scope of coverage, application of deductibles, and claim submission processes so that both internal and external users have a clear understanding of the short and long term financial impact of losses covered by the Risk fund.*

*“The audit accurately observed that the Risk Management does not address:*

- *The City’s threshold for determining total loss;*
- *The process for obtaining repair estimates prior to repair;*  
*and*
- *The applicability of salvage and deductible charges.*

*Risk Management agrees that the revised manual should clearly articulate how deductibles and salvage values apply to the respective Department and the value of the Department’s claim. However, the*

*parameters for determining a total loss and salvage value calculation are not appropriately published in the Risk Management Manual because both decision points center on the point at which a piece of property is at the end of its useful life. In the context of public entities like the City, the decision about whether a vehicle is at the end of its useful life should be reached in collaboration with the Department submitting the claim so that the claimant-Department can consult with Risk Management about optional safe use of the item in the future and the ultimate financial impact of the claim. In certain instances, the claimant-Department may believe the best course of action is to withdraw the claim.”*

ESTIMATED COMPLETION DATE

*“Proposed revisions have already been initiated and the revised Manual will be ready for circulation to Departments in June with an effective date of July 1, 2019 to comport with the start of the new fiscal year.”*

2. RISK MANAGEMENT SHOULD ENSURE THIRD PARTY ADMINISTRATORS AND VEHICLE COLLISION VENDORS ARE IN COMPLIANCE WITH THEIR CONTRACT REQUIREMENTS.

The TPA was not performing several important requirements of its contract including:

- Independent test for cost reasonableness;
- Repair estimates
  - Preparing independent repair estimates for auto accident claims;
  - Obtaining repair estimates from the body shops; and
  - Comparing independently prepared estimates to body shop estimates to determine cost reasonableness.
- Documenting vehicle damage; and
- Review of vendor invoices for accuracy and contractual pricing compliance.

Risk Management relied on the TPA to perform in accordance with the contract and did not actively manage the contract. As a result, the TPA did not fully perform its contractual duties, costs were not reviewed, and billing errors existed and remained unnoticed, which may impact the overall repair costs to the City.

Independent Test for Cost Reasonableness and Repair Estimates

An independent test for cost reasonableness was not performed by the TPA. Rather, the TPA relied on the body shops to bill accurately. Additionally, the TPA was unable to prepare its own independent repair estimates as it no longer maintained the software program needed to generate the estimates. Of 24 auto collision claims selected for review, repair estimates were not completed by the TPA on any of the claims.

According to the TPA's Response to the City's Request for Proposal, Section 3.1.3.4 Duties of the claims adjuster will include, but are not limited to the following:

- Section 3.1.3.4.2 Prepare repair estimates for each vehicle.  
[TPA response] "We understand this requirement and will comply accordingly."
- Section 3.1.3.4.3 Arrange for and obtain repair estimates from vendors authorized to repair City vehicles.  
[TPA response] "We understand this requirement and will comply accordingly."
- Section 3.1.3.4.4 Compare vendor estimates to Contractor's own estimates. Evaluate estimates for accuracy and thoroughness.  
[TPA response] "We understand this requirement and will comply accordingly."

#### Documented Vehicle Damage

Of 24 auto collision claims selected for review, two claims involved damage under the \$300 threshold, two claims involved glass only damage over the \$300 threshold, and photos to document the damage were not obtained. Of the 20 claims in which photos were taken to document the damage, 15 had been taken by the body shop assigned to repair the vehicle.

Section 5.12 of the CAO Risk Manual states "Vehicular damage to tires, windshields or other parts is excluded from coverage unless the repair or replacement exceeds \$300 in which case Risk Management provides first dollar coverage with no deductible."

According to the TPA's Response for RFP Part 3, Scope of Services, Section 3.1.2 Duties of the claims adjusters will include but are not limited to the following:

- Section 3.1.2.2 Conduct thorough investigations of each claim...obtain police reports, photographs, measurements, diagrams and other investigations as called for.  
[TPA response] "We understand this requirement and will comply accordingly."

The TPA relied on the body shops to photograph vehicles and document vehicle damage.

By not obtaining photos of vehicle damage prior to delivering the vehicle to the body shop, additional damage could occur or be inflicted upon the vehicle prior to the completion of the repair estimate, and remain unnoticed by the City or TPA.

According to Risk Management, beginning August 1, 2018, an appraisal company has been hired to independently appraise and document damage to City vehicles prior to the vehicle's delivery to the body shop.

Review of Vendor Invoices for Accuracy and Contractual Pricing Compliance

The TPA relied on the body shops to bill accurately and in accordance with the contracts. The TPA lacked the software program to properly estimate damage repairs and did not review invoices from the body shops for accuracy.

If the TPA had properly observed each vehicle and noted items requiring repair and had the proper estimating software they could have prepared a reasonable estimate of cost before sending the vehicle for repair. An estimating software like Mitchell Estimating would allow the TPA access to parts and labor databases that would be required to properly identify the cost of a part at the time of the estimate, the labor hours associated with replacement, removal and install, refinish, complete overhauls, and calculations for paint time. For example, Mitchell Estimating software includes:

Parts Databases

- Access to alternate parts from over 2,000 aftermarket suppliers;
- Access to over 70 million salvage parts;
- The only estimating solution that delivers parts price changes daily; and
- Automatically searches alternate parts and adds them to your estimate.

Labor Databases

- Labor times for new and used part replacement; and
- Part removal and install, refinish, complete overhauls, and calculations for paint blend time.

Of 16 claims for which a contracted body shop repaired vehicles, final repair invoices submitted by vendors contained nine rates that were either billed higher than the approved contract rate or contained rates that were not specified in the contract. Three labor rates were higher than the specified contract rates while six labor rates that were not identified in the contract, as indicated in the table below.

**Incorrect Invoice Rates vs. Approved Contract Rates**

<b>Body Shop</b>	<b>Invoice Labor Rates Billed</b>	<b>Approved Contract Labor Rates</b>
Discount Collision Center	\$85 (Mechanical)	\$65.00
Discount Collision Center	\$50 (Body)	\$42.00 or \$43.31
Discount Collision Center	\$50 (Body)	\$42.00 or \$43.31
Discount Collision Center	\$50 (Refinish)	Rate not included in contract
Discount Collision Center	\$50 (Refinish)	Rate not included in contract
Fincham Enterprises, Inc.	\$32 (Paint Supplies)	Rate not included in contract
Fincham Enterprises, Inc.	\$32 (Paint Supplies)	Rate not included in contract
Fincham Enterprises, Inc.	\$32 (Paint Supplies)	Rate not included in contract
Fincham Enterprises, Inc.	\$32 (Paint Supplies)	Rate not included in contract

*Source: Body shop invoices*

Section 3.1.4.9 of the RFP states that the TPA will “Review, adjust, if necessary, approve and arrange for payment of all invoices.”

[TPA response] “We understand this requirement and will comply accordingly.”

**RECOMMENDATION**

Risk Management should review the performance of TPAs and vehicle collision vendors to ensure contract compliance and fulfillment of expectations.

**RESPONSE FROM DFAS**

*“The Risk Management Division of the Department of Financial Administration and Services acknowledges that oversight of the Third Party Administrator’s processes was lacking and otherwise accepts the findings of the audit Risk Management is no longer engaged with a third party administrator to adjust the City Fleet vehicle collision repairs. As discussed more fully below, new processes are being developed in conjunction with Fleet for efficient and cost-effective handling of vehicle repairs that are intended to address the needs identified in the audit to evaluate and document vehicle damage prior to the repairs, review vendor invoices for accuracy and pricing compliance and validate satisfactory completion of repair work.”*

ESTIMATED COMPLETION DATE

*“All City Fleet vehicle collision repair claims are now adjusted in-house by City employees. Newly implemented processes between Risk and Fleet are intended to improve efficiency, accountability and consistency in the handling of the claims including compliance with vendor contract requirements. The Tort section of Risk oversees this process and is working with Fleet to develop internal procedures.*

*“The Tort section, in conjunction with the City’s Fleet division, has also implemented new procedures for assigning work to third-party body shops for the repair of Fleet vehicles. Auto repair body shops are assigned to an approved panel after demonstrating their ability to meet published criteria and adhere to City policies and insurance requirements. Assignments to participating body shops are made on a rotation basis. This process is transparent and easier to review and monitor.”*

3. RISK MANAGEMENT SHOULD REMIND ALL DEPARTMENTS TO REPORT ALL VEHICLE COLLISIONS REGARDLESS OF CLAIMS STATUS OR AMOUNT.

Not all City vehicle accidents may get reported to Risk Management. Four City departments have the facility and ability to repair accident damage of their own department's vehicles. Minor accidents that do not involve a third party may not result in a claim being filed and may be repaired by the various departments without being reported to Risk management.

OIA obtained accident data recorded in AssetWorks by the Fleet Management Division, and Solid Waste and Transit Departments for the audit period then compared the data to the accident data recorded in the Risk Management Origami claims system. Accidents recorded at the department level were not listed in the Risk Management Origami claims system.

AFR does not differentiate accident repair from regular repair and preventive maintenance in AssetWorks, and provided OIA with a spreadsheet of the Department's vehicle accidents. The spreadsheet data was compared to the accident data recorded in the Risk Management Origami claims system. None of the AFR accidents were listed in Origami.

Judgmental samples of 10 differences were selected from each of the division/departments and OIA requested confirmation from the department and Risk

Management as to whether the accidents had been correctly reported to Risk Management and, if not reported, the reason. Of the 40 accidents reviewed:

- Fleet Management provided documentation that 5 out of 10 had been reported to Risk Management. Of the unreported accidents:
  - One could not be determined if it had been sent to Risk Management;
  - One involved minimal repair costs totaling \$63;
  - One involved a heavy duty vehicle > 1 ton;
  - One the responsible department chose not to repair the vehicle (no cost estimate provided); and
  - One vehicle was retrieved by the department.
- AFR provided documentation showing that 8 out of 10 had been reported to Risk Management, but was uncertain why the remaining 2 had not been reported;
- Solid Waste stated that if accidents are internal (involve only Solid Waste vehicles), the department handles them internally unless the damage is excessive. Solid Waste stated that nine of the ten accidents involved heavy duty trucks (66k GVWR) and were therefore not reported to Risk Management; and
- Transit provided a general statement that vehicle incidents/accidents are forwarded to Risk Management via interoffice mail or email, and that Transit reports directly to Risk Management when there is a non-preventable City side 3<sup>rd</sup> party claim possibility. However, no documentation was provided.

According to the CAO Risk Manual:

Section 5.13 - Reporting a Claim. Claims for physical damage to a City-vehicle are made by completing an Incident Report which shall be submitted immediately to Risk.

Section 5.14 – Estimate and Repair Procedures. Vehicles in need of repair, other than commercial class vehicles, shall be driven or towed to Fleet Management at the Pino City Yard facility. It is the operating department’s responsibility to deliver the vehicle to this facility. Risk Management and Fleet Management will arrange for the repair and notify the operating department when the vehicle is ready to be picked up by the operating department.

Risk Management relies on departments to accurately report vehicle accidents. Certain City departments have the facilities to make vehicle repairs and may not report accidents to Risk Management that involved minor vehicle damage or unreported damage.

According to the CAO Risk Manual Section 7.30 VEHICLE ACCIDENT

**REPORTING:**

- Any person involved in an accident while operating a City vehicle shall immediately call his/her supervisor and the police to the scene.
- The supervisor shall investigate the accident and report his/her finding to the Risk Management Division prior to the close of the next work day.
- Department Directors shall require that vehicle accident reports are promptly submitted to the Risk Management Division in accordance with the above.
- Failure of employees or supervisors to report unsafe vehicles may result in disciplinary action against those involved. It is the responsibility of every supervisor and Department Director to ensure that this instruction is followed.

Unreported accidents increase the unknown liability for the City of Albuquerque. Without accurate vehicle accident data, Risk Management's ability to assess the City's overall risk and associated cost may be impacted.

**RECOMMENDATION**

Risk Management should:

- Clarify in the CAO Risk Manual that all accidents must be reported to Risk Management regardless of claims status or amount; and
- Remind all departments that vehicle accidents should be reported regardless of claims status or amount.

**RESPONSE FROM DFAS**

***“The Risk Management Division of the Department of Financial Administration and Services acknowledges that there is inconsistency in reporting – more critically, the inconsistency in reporting is evidence of non-compliance with the City Operator Permit Policy which requires reporting of all accidents.*”**

***“Risk Management is in process of opening an online portal for reporting incidents and accidents in order to improve ease of use and consistency in reporting. In addition to opening the online portal, Risk Management will also develop a communication plan to educate Department Leadership and employees about how to access and use the portal and the critical importance of complying with the City Operator Permit policy.”***

**ESTIMATED COMPLETION DATE**

***“May 15, 2019”***

4. RISK MANAGEMENT SHOULD MAINTAIN A COMPREHENSIVE DATABASE OF CITY EMPLOYEE VEHICLE ACCIDENTS FOR CITY OPERATOR'S PERMIT (COP) AND RISK OF LOSS PURPOSES.

Risk Management's master record of employees involved in vehicle accidents does not reflect all vehicle accidents. For example, from a judgmental sample of 10 accidents involving AFR (8 of which AFR had provided documentation supporting that each had been properly reported to Risk Management), Risk Management's data contained only three of the accidents.

Throughout the audit, OIA requested information regarding all City vehicle accidents and was provided information from Risk Management and City departments, however a comprehensive listing of all accidents could not be produced. Without a complete list of accidents, the City cannot properly track the risk of loss to the City and cannot adequately track how COP points are tallied for City employees (ex: if a City employee is involved in multiple vehicle accidents).

According to the CAO Risk Manual Section 7.30 VEHICLE ACCIDENT REPORTING:

- Any person involved in an accident while operating a City vehicle shall immediately call his/her supervisor and the police to the scene.
- The supervisor shall investigate the accident and report his/her finding to the Risk Management Division prior to the close of the next work day.
- Department Directors shall require that vehicle accident reports are promptly submitted to the Risk Management Division in accordance with the above.
- Failure of employees or supervisors to report unsafe vehicles may result in disciplinary action against those involved. It is the responsibility of every supervisor and Department Director to ensure that this instruction is followed.

According to the COP Policy 1200:

12. Responsibilities in Regard to the City Operator Permit Rule.

- The Risk Manager Shall: Maintain statistical data on vehicular accidents involving motor vehicles while on official City business.
- The Fleet Safety Officer Shall:
  - Implement and manage the City Operator Permit Policy on a day-to-day basis under the supervision and direction of the Risk Manager.
  - Determine if, in the interests of safety, the Operator's COP

should be suspended or revoked or whether the Operator can resume his driving responsibilities while the alleged incident is pending investigation or resolution of charges.

- Issue, suspend or revoke an Operator's COP and reinstate a COP when appropriate.

13. City Operator Point System (Points Assessment). The City shall utilize a point system to monitor the acceptability of a COP holder's driving record.

- The Fleet Safety Officer shall:
  - Administer and maintain the City Operator Point System.
  - Revoke or suspend an Operator's COP as appropriate when the driver has accumulated twelve (12) or more points against the driver's COP under the City's Point System during the immediate previous twelve (12) month period.
- Fleet Safety Officer may:
  - Assess points against a driver's COP.
  - Revoke or suspend an Operator's COP as appropriate when the driver has accumulated nine (9) or more points against the driver's COP under the City's Point System during the immediate previous twelve (12) month period.

Several factors may affect the accidents recorded by Risk Management in Origami. Risk Management and the City's accident reporting process relies on City departments to report all accidents; however, not all vehicle accidents may result in a claim to Risk Management. The Risk Management COP Section is responsible for maintaining the COP point system, but has experienced staffing changes and is currently modifying the COP regulations.

Departments indicated that Risk Management may not be notified if the accident involves unreported damage, minor damage, or other unexplained reporting oversight.

City employees may have multiple collisions that do not result in a claim, and are therefore, not reported to or are costs of self-repair recorded by Risk Management. Accidents not reported to Risk Management may result in points not being assessed against an employee's COP, which could lead to the City's failure to identify poor driving habits and revocation an employee's COP.

Associated costs of vehicle repair by departments for damages that are not reported to Risk Management are absorbed by the department and may be excluded from Risk Management's consideration in the true cost of the City's risk of loss in the Risk Management Fund.

RECOMMENDATION

Risk Management should maintain a comprehensive database of vehicle collisions by employee that would enable them to perform the requirements outlined in the CAO Risk Manual and COP policy.

RESPONSE FROM DFAS

*“The Risk Management Division of the Department of Financial Administration and Services acknowledges that there is inconsistency in reporting – more critically, the inconsistency in reporting is evidence of non-compliance with the City Operator Permit Policy which requires reporting of all accidents. As noted in the audit report, beginning January 1, 2018 Risk Management replaced its prior Risk Management Information System (RMIS) and began to utilize a cloud-based system called Origami. The new system is widely recognized as a leading product for administration of risk pool data and is particularly widely adopted by public sector risk management administrations. Presently, the City’s RMIS is configured to record employees involved in an accident and to track their points for COP purposes. Prior to 2018, an Access database was used to track employee accidents and points. Risk did not convert any of that data into Origami, it still resides in the database. Points are assessed on an employee after their accident has gone through the respective departments Accident Review Board, which makes the determination on the number of points to assess based on the National Safety Council guidelines for determining the preventability of accidents. Implementation of the online portal for reporting incidents and accidents is expected to remove barriers associated paper-based reporting and ultimately improve consistency in tracking, communication and compliance management.”*

ESTIMATED COMPLETION DATE

*“May 15, 2019”*

## CONCLUSION

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Opportunities exist with DFAS for improved reporting and processing of City vehicle collision repairs. The areas addressed throughout this report will help DFAS update and align its policies with operational practices and strengthen its management of contract performance and recommend:

- Updating the CAO Risk Management Manual;
- Reviewing the performance of TPAs and vehicle collision vendors;
- Reminding departments that all accidents must be reported regardless of claims status or amount; and
- Maintaining a comprehensive database of vehicle collisions by employee.

The scope of our pricing analysis was limited because the TPA did not prepare independent estimates nor did the TPA have the appropriate software program that would allow them to properly estimate the cost of replacement parts, labor hours require by part, and other costs required to compile an appropriate estimate. Our testing was limited to reviewing a sample of invoices to verify labor rates charged were in compliance with contract authorized labor rates. Labor rate testing identified vendors billed rates that were higher than the approved contractual rates and labor rates for service descriptions that were not included in the authorized contract. Consequently, we were unable to reasonably estimate the City's exposure to over or under charges and recommend that Risk Management should consider these limitations and determine if an additional independent assessment of invoices should be performed.

We greatly appreciate the active participation, cooperation, and responsiveness of DFAS, the TPA, and the various departments that were involved throughout the audit process. Their assistance and willingness to provide information is a reflection of their professionalism and dedication to the City of Albuquerque.

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APPROVED:

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APPROVED FOR PUBLICATION:

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Chairperson, Accountability in  
Government Oversight Committee

## APPENDIX A

### OBJECTIVES

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The audit objectives were to determine:

1. Are all accidents involving City vehicles reported to Risk Management?
2. Are auto physical claims reviewed to ensure that the estimated repair cost and service are reasonable and proper?
3. Are totaled vehicles properly assessed and supported?
4. Are subrogation opportunities properly pursued and documented?

### SCOPE AND LIMITATIONS

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Our audit did not include an examination of all functions and activities related to the vehicle collision repair. Our scope was limited to the objectives above. This report and its conclusions are based on information taken from a sample of transactions and do not represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork on January 29, 2019 and does not reflect events or accounting entries after that date.

DFAS management is responsible for establishing and maintaining effective internal control and complying with laws, regulations, contracts, and agreements.

In performance audits, a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct (1) impairments of effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) noncompliance with provisions of laws, regulations, contracts, or grant agreements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective is not met. In the performance audit requirements, the term significant is comparable to the term material as used in the context of financial statement engagements. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

Our consideration of internal control was for the limited purpose described in our audit objectives and was not designed to identify all deficiencies in internal control. Therefore,

unidentified deficiencies may exist. Accordingly, we do not express an opinion on the effectiveness of DFAS's internal control.

As part of the performance audit, we tested the City's compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could directly and significantly affect the objectives of our audit. However, opining on compliance with those provisions was not an objective of our performance audit and accordingly, we do not express an opinion.

The scope of our pricing analysis was limited because the TPA did not prepare independent estimates nor did the TPA have the appropriate software program that would allow them to properly estimate the cost of replacement parts, labor hours required by part, and other costs required to build an appropriate estimate nor did the TPA verify the propriety of vendor contract labor rates.

We conducted this performance audit in accordance with generally accepted government auditing standards for performance audits, as prescribed in *Government Auditing Standards*, revision 2011, issued by the Controller General of the United States. 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.

## METHODOLOGY

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Methodologies used to accomplish the audit objectives include but are not limited to the following:

- Interviewed key employees from the Purchasing, Fleet Management, and Risk Management Divisions of the Department of Finance & Administrative Services;
- Attempted to identify the total population of vehicle accidents reported to Risk Management;
- Identified the total population of accident codes recorded in AssetWorks;
- Compared total accidents reported to Risk Management to accident codes recorded in AssetWorks and identified any discrepancies;
- Developed samples (judgmental and random statistical) from data supporting the objectives and assess the evidence against underlying criteria to the objective. Evidence includes physical (e.g., vehicle photos, etc.), documentary (e.g., accident reports, claims forms, work orders, NADA pricing, invoices, estimates/appraisals, etc.), and testimonial (e.g., interviews, inquiries, etc.) that supports compliance or non-compliance with the underlying criteria to each objective; and

- Evaluated the results of testing to determine and document if sufficient, appropriate evidence has been obtained to address audit objectives and reduce audit risk to an acceptable level and that evidence is sufficient and appropriate to support findings and conclusion.