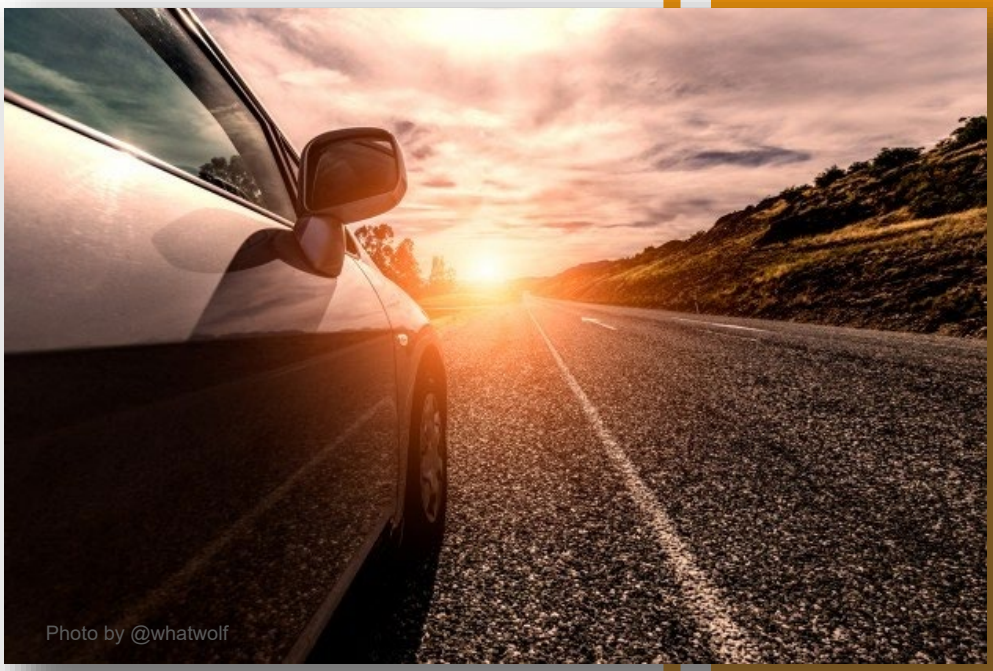
INTERNAL AUDIT REPORT

2021

EFFICIENCY ASSESSMENT

SCDOT Damage Claims Management



SOUTH CAROLINA OFFICE OF THE STATE AUDITOR

INTERNAL AUDIT SERVICES

January 14, 2021

1 EXECUTIVE SUMMARY

EFFICIENCY ASSESSMENT – SCDOT DAMAGE CLAIMS MANAGEMENT

OBJECTIVES:

- The South Carolina Department of Transportation's (SCDOT) objective is to make accurate and timely decisions on damage claims occurring on SCDOT roadways while using its resources as efficiently as possible.
- Our objective was to assess the damage claims management activity to identify inefficiencies, if any, that hinder SCDOT in achieving its objectives.

BACKGROUND:

- The South Carolina Torts Claims Act allows an individual to file a claim against SCDOT.
- SCDOT or its insurance carrier has 180 days after a claim is received to determine whether the claim is paid or denied.
- SCDOT's insurer, the South Carolina Insurance Reserve Fund (IRF), covers all claims above SCDOT's deductible of $250.
- For claims between $250 and $1,500, SCDOT is responsible for determining whether it is liable; if so, it pays the claims and seeks reimbursement from the IRF.
- Claims above $1,500 are sent to the IRF for determination. For claims less than $250, SCDOT is solely responsible for the claim decision and payment (if applicable).

EXECUTIVE SUMMARY (CONTINUED)

OBSERVATION:

1. SCDOT would enjoy greater efficiency gains through programmatic oversight of damage claims. The Assistant Chief Counsel is well positioned to manage such a program. Recognizing this, the Claims Office began taking actions during our assessment that would allow the Assistant Chief Counsel time to manage damage claims at a programmatic level. (detailed in Observation 1 on page 9)

Management Action Plans are included in the report following the detailed Observation as referenced above.

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2 FOREWORD

AUTHORIZATION

The South Carolina Office of the State Auditor established the Internal Audit Services division (IAS) pursuant to SC Code Section 57-1-360 as revised by Act 275 of the 2016 legislative session. IAS is an independent, objective assurance and consulting function designed to add value and improve the operations of SCDOT. IAS helps SCDOT to achieve its objectives by bringing a systematic, disciplined approach to evaluating the effectiveness of risk management, internal control, and governance processes and by advising on best practices.

STATEMENT OF INDEPENDENCE

To ensure independence, IAS reports administratively and functionally to the State Auditor while working collaboratively with SCDOT leadership in developing an audit plan that appropriately aligns with SCDOT's mission and business objectives and reflects business risks and other priorities.

REPORT DISTRIBUTION

This report is intended for the information and use of the SCDOT Commission, SCDOT leadership, the Chairman of the Senate Transportation Committee, the Chairman of the Senate Finance Committee, the Chairman of the House of Representatives Education and Public Works Committee, and the Chairman of the House of Representatives Ways and Means Committee. However, this report is a matter of public record and its distribution is not limited.

FOLLOW-UP ON MANAGEMENT ACTION PLANS

We have collaborated with the Office of the Chief Counsel on the development of actions to address observations noted in this report. Our follow up with the Office of the Chief Counsel on the implementation of the actions on an ongoing basis will aid effective and timely implementation. We will provide SCDOT leadership with periodic reports on the status of Management Action Plans.

PERFORMED BY

Mark LaBruyere, CPA
Senior Manager
Specializing in Risk Management

REVIEWED BY

Wayne Sams, CPA
Director of Internal Audit Services

ACKNOWLEDGEMENT

We wish to thank the Claims Office and the Office of Chief Counsel as well as management and staff of the district and county offices for their insight and contributions to this assessment.

3 INTERNAL AUDITOR' S REPORT

January 14, 2021

Ms. Christy A. Hall, Secretary of Transportation
and
Members of the Commission
South Carolina Department of Transportation
Columbia, South Carolina

We have completed an efficiency assessment of the South Carolina Department of Transportation's (SCDOT) damage claims management activity. The objective of this assessment was to analyze processes for potential inefficiency that may impact the use of resources in making accurate and timely decisions on roadway damage claims.

We planned and performed the engagement with due professional care in order to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions. Our observation as a result of our assessment is described in the *Observation, Recommendation, and Management Action Plans* section beginning on page 9 of this report.

George L. Kennedy, III, CPA
State Auditor

4 ENGAGEMENT OVERVIEW

4.1 BACKGROUND

The South Carolina Torts Claims Act (Section 15-78-10 of the South Carolina Code of Laws) allows an individual to file a claim against SCDOT. An individual has one year from the date of occurrence to file a claim for damage to a vehicle or for personal injury. Under the Act, SCDOT or its insurance carrier has 180 days after a claim is received to determine whether the claim is paid or denied.

Claimants must submit claims on a notarized form to the county offices. The county offices input claim information and supporting documentation into the Risk Management Information System (RMIS) database. SCDOT personnel use the information for investigating SCDOT's liability for the claims.

SCDOT's insurer, the IRF covers all claims above SCDOT's deductible of $250. For claims between $250 and $1,500, SCDOT is responsible for determining whether the claim is to be paid, paying claims for which SCDOT is liable, and seeking reimbursement from the IRF. Claims above $1,500 are sent to the IRF for determination and payment. For any claims less than the $250 deductible, SCDOT is solely responsible for the claim decision and payment (if applicable).

SCDOT has settled claims of $4.8 million for the ten-year period ended December 31, 2019. Figure 1 includes aggregated claims data based on the original claim values between 2010 and 2019 for claims up to $1 million.

Figure 1

CLAIMS 2010-2019: ($0 to $1MIL Original Claim Value)				
Per Original Claim Value	Total Claims	Acceptance Rate (%)	Settled Amounts	Avg. / Year
<$250	7,018	51%	$ 503,843	$ 50,384
$250-$1,500	12,545	47%	$ 3,211,700	$ 321,170
$1,500-$10,000	3,577	39%	$ 782,766	$ 78,277
$10,000-$100,000	273	28%	$ 260,488	$ 26,049
$100,000-$1,000,000	73	44%	$ 40,524	$ 4,052
TOTAL	**23,486**	**47%**	**$ 4,799,321**	**$ 479,932**

4.2 OBJECTIVES

SCDOT's objective is to make accurate and timely decisions on roadway claims while using its resources as efficiently as possible. The objective of this engagement was to assess the damage claims management activity to identify inefficiencies, if any, that hinder SCDOT in achieving its objectives.

4.3 SCOPE

This assessment includes evaluation of the following damage claims management processes:

County processes:

- Processing of claimant information
- County staff research and recommendation

District process:

- Review of County recommendation

Headquarters (HQ) Claims Office processes:

- Review of recommendation
- Communication to claimant
- Submission to the IRF
- Payment of claim
- Appeals by claimant

We determined our scope should cover the above processes for calendar year 2019, which included 2,468 claims paid for a total of $367,076. We performed the following procedures:

1. Developed a flow chart of the current damage claims management processes.
2. Identified bottlenecks and inefficiencies in the process.
3. Identified baseline data that can provide insight into the annual claims volume and materiality.
4. Analyzed data in procedures 1 and 2.
5. Developed recommended actions to improve efficiency and program effectiveness.

5 ANALYSIS

5.1 PROCESS ANALYSIS

We created Business Process Model (BPM) diagrams (included in Appendix A) for each of the damage claims management processes as shown in our scope in Section 4.3.

The BPMs document the required tasks, decision points, and responsible parties. During the course of our assessment, the Claims Office made the following changes to damage claims processes:

1. Created a temporary administrative assistant position to field damage claims phone calls and coordinate reimbursement with the IRF.
2. Assigned a current staff member to the former roles and responsibilities of the Assistant Chief Counsel within the damage claims process. The Assistant Chief Counsel will retain responsibilities within the protest process and in managing the IRF relationship.

These changes by the Claims Office resulted in revised process flows that are currently operating. We have developed BPMs to document these revised processes (see Appendix B).

5.2 USER FREQUENCY ANALYSIS

Due to the large number of claims, we considered the potential that frequent fraudulent claims by individual claimants may be consuming staff resources. As noted in Figure 2 below, we determined that 99.5 percent of claimants submitted fewer than three claims during the 20-year period ended December 31, 2019. (We omitted claims by utility providers; our expectation is that those claimants would have a higher frequency of valid claims than those of the average citizen and would therefore skew the results.) We concluded that fraudulent claims, if any, do not cause a significant burden on resources.

Figure 2

CLAIMS PER CLAIMANT 2000-2019			
# of Claims per Claimant	# of Claimants	Percentage of Claimants	Cumulative Percentage
1	32,273	96.0%	96.0%
2	1,194	3.5%	99.5%
3	147	0.4%	99.9%
4+	22	0.1%	100.0%

6 OBSERVATION, RECOMMENDATION, AND MANAGEMENT ACTION PLANS

Observation 1 Roles and Responsibilities

We noted that the damage claims processes at the time of our assessment focused on review and approval or denial for each claim. While small process efficiencies may be gained at this transactional level, we believe that SCDOT would enjoy greater efficiency gains by establishing programmatic oversight over the damage claims process. The Assistant Chief Counsel is well positioned to manage such a program. During our assessment, we noted that the role of the Assistant Chief Counsel was primarily to review each claim and field claimant phone calls. The phone calls consumed a significant amount of the Assistant Chief Counsel's time. While responding to customer calls is a valuable part of managing claims, it precludes the Division of Legal Services from taking full advantage of the Assistant Chief Counsel's legal knowledge and experience in managing a claims program and in conducting work in other areas of the Division of Legal Services as may be needed. Recognizing this, the Claims Office created an administrative assistant position to take over the fielding of phone calls and added a claims manager role to an existing employee. These actions allow the Assistant Chief Counsel time to manage damage claims at a programmatic level.

Recommendation:

To ensure the efficient and effective use of resources for processing claims at the county, district, and HQ levels, we recommend that SCDOT leadership grant oversight authority for the damage claims management activity to the Assistant Chief Counsel with a programmatic role that includes, at a minimum, the following activities:

1. **Analysis of claims trends to identify fraudulent claims, errors in processing, and program improvements.** The HQ Claims Office should develop periodic reports (e.g. quarterly) that track key performance indicators (KPIs) that include but are not limited to:
    - Dollar amount and number of claims approved and denied within a county and district
    - Claims approval and denial rates

- Average time to complete specific activities within the damage claims management processes

Developing key metrics is central to optimizing program monitoring. It is important that the metrics tracked are areas of focus that can provide insights to the HQ Claims Office when deviations from expectations are observed. If a deviation in a KPI is detected, the HQ Claims Office should have the authority and responsibility for querying the district and county staff regarding the deviation to understand the reason and to resolve any problems.

2. **Communication of overturned recommendation and reasons therefore.** During our assessment, we noted that district and county staff who had made a recommendation to approve or decline a claim were rarely made aware of a change in the recommendation by the HQ Claims Office. Improved communication with staff could improve the effectiveness and efficiency of the review process.
3. **Training of county and district staff.** Such training could be a formal structured event for new claims employees, a list of frequently asked questions to provide key information to staff, and email blasts informing of claims trends, KPIs, and best practices.

Management Action Plan (MAP) 1a

Reporting

Develop a quarterly reporting practice to identify trends, deviations, and errors. Reports will be generated to include spread of approval/denial rates across districts and/or counties and dollars paid for approved claims. Reports will also indicate claims "pending" for a length of time outside of an established norm.

MAP Owner:	Assistant Chief Counsel
Division:	Claims Office
Scheduled Date:	September 1, 2021

Management Action Plan (MAP) 1b	
Efficiency Establish norms for claim processing times at each level of investigation. Staff will develop a deadline using an average processing time state-wide and then communicate that to the local offices. The routine reporting in MAP 1a will ensure that the processing norms are being achieved.	
MAP Owner:	Assistant Chief Counsel
Division:	Claims Office
Scheduled Date:	September 1, 2021

Management Action Plan (MAP) 1c	
Training – Website Updates Develop a list of frequently asked questions (FAQ) and updates to be added to the Claims Office Intranet page. Update Damage Claims section of SCDOT's Internet site to better inform the public of the claims process and limitations imposed by the Tort Claims Act.	
MAP Owner:	Assistant Chief Counsel
Division:	Claims Office
Scheduled Date:	September 1, 2021

Management Action Plan (MAP) 1d	
Training - Video Develop a training video for new claims investigators.	
MAP Owner:	Assistant Chief Counsel
Division:	Claims Office
Scheduled Date:	December 1, 2021

Management Action Plan (MAP) 1e	
Training – District Visits and/or HQ Training Visit each district annually to meet staff, answer questions, and provide updates and/or host an annual training at HQ and require all field agents to attend, ensuring all investigators have the same understanding and minimizing training time out of the office. It also allows for cross pollination of ideas and issues that the districts are encountering.	
MAP Owner:	Assistant Chief Counsel
Division:	Claims Office
Scheduled Date:	September 1, 2021

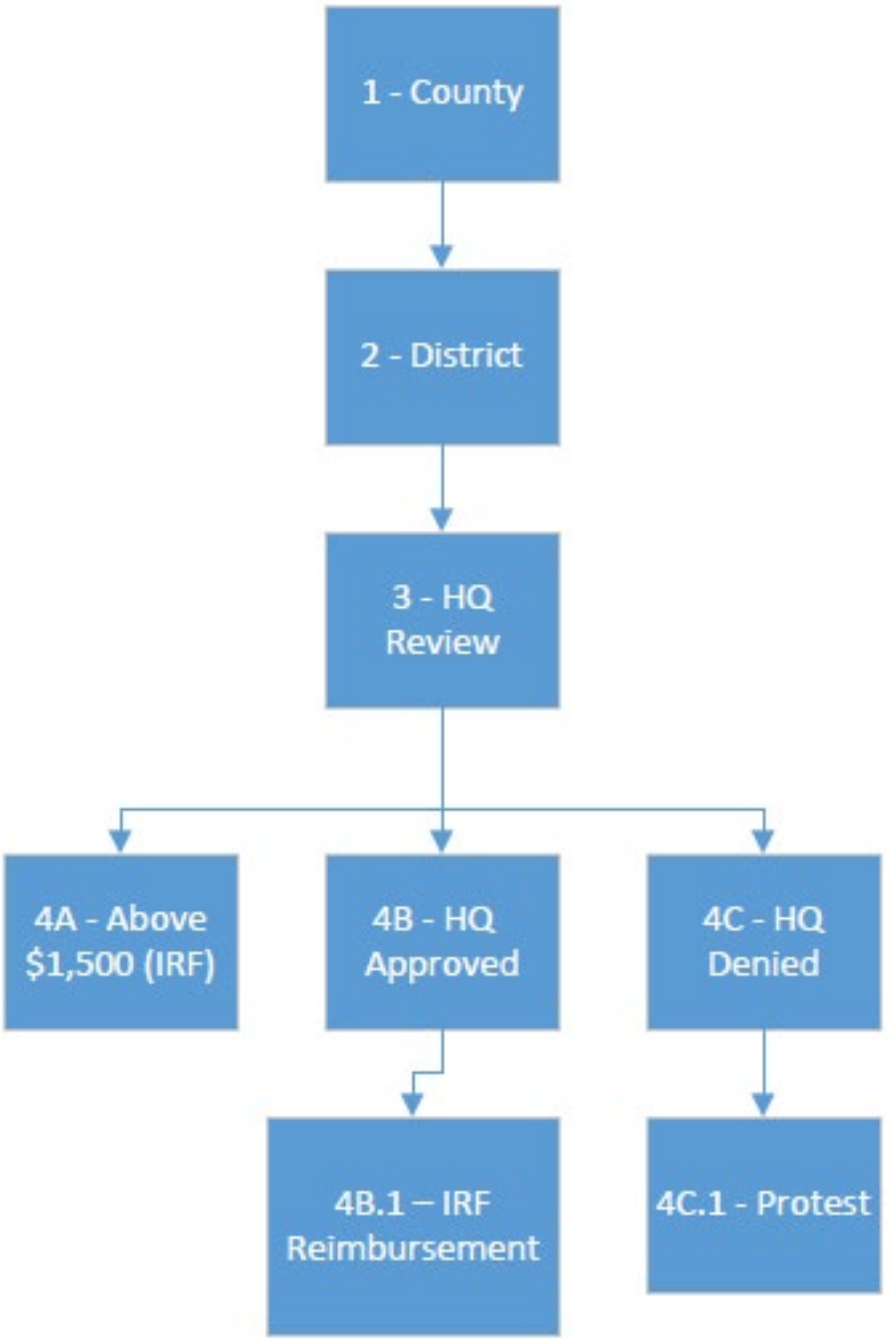
Management Action Plan (MAP) 1f	
Feedback on Overturned Recommendations Communicate overturned county/district recommendations to the appropriate investigators as a training/instructional tool. Said notification will occur at both the Claims Manager review level and after appeals require recommendations be reversed.	
MAP Owner:	Assistant Chief Counsel
Division:	Claims Office
Scheduled Date:	September 1, 2021

Management Action Plan (MAP) 1g	
RMIS Fields Add data entry fields to RMIS to include contact information for responsible entities (other than SCDOT) when a claim is denied based on a lack of jurisdiction. Create and add a fillable automatically-generated denial letter to RMIS to use in such circumstances. This will reduce the amount of time the Claims Manager spends drafting custom denial letters and obtaining contact information from local offices.	
MAP Owner:	Assistant Chief Counsel
Division:	Claims Office
Scheduled Date:	September 1, 2021

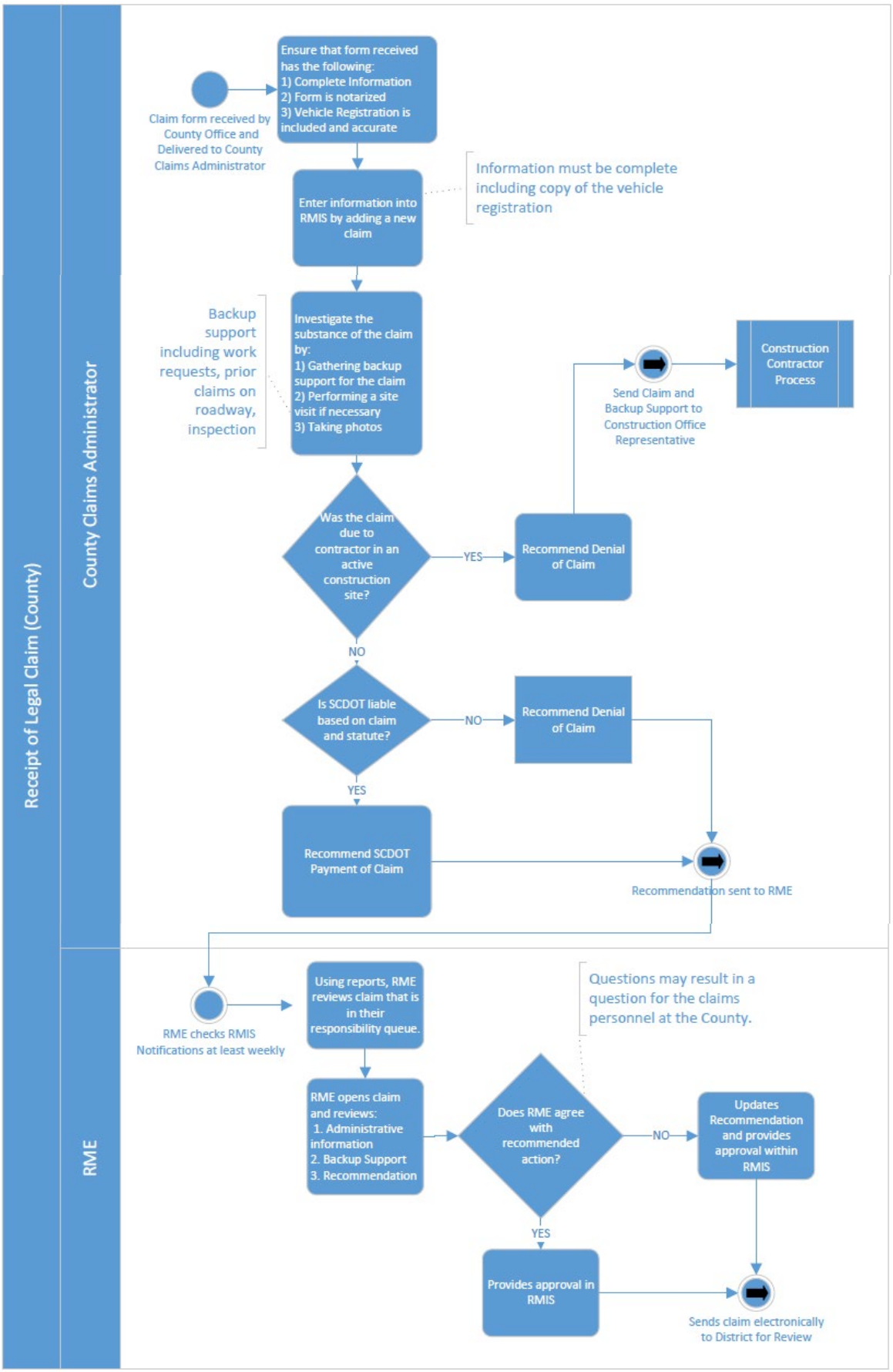
Management Action Plan (MAP) 1h	
District Analysis Evaluate the necessity of having claims reviewed at the District Office level. Poll District Office staff to ascertain their ideas about the time spent in said review and the value it adds to the process. If the overall opinion is to remove District-level review from the process, amend Departmental Directive 21A to reflect new procedures. If the evaluation reveals that District-level review is necessary and valuable, take no new action.	
MAP Owner:	Assistant Chief Counsel
Division:	Claims Office
Scheduled Date:	December 31, 2021

APPENDIX A **BUSINESS PROCESS MODELS ASSESSED**

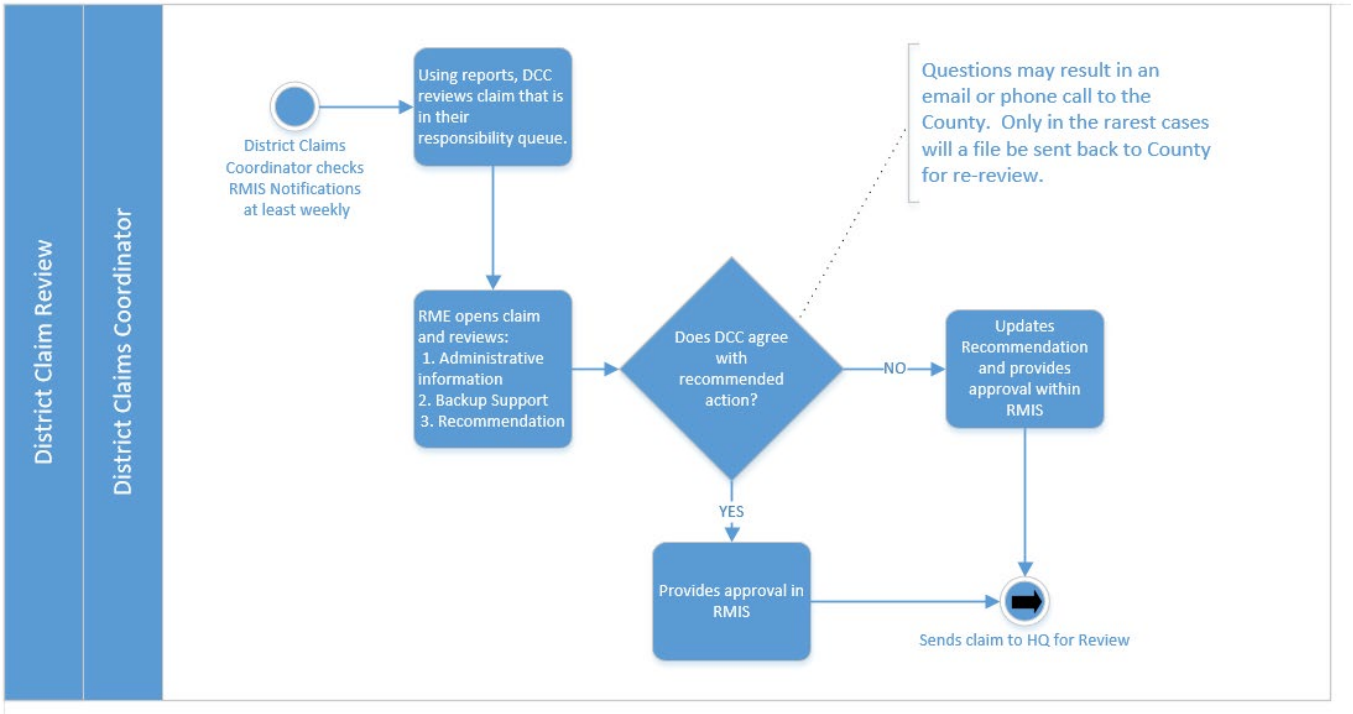
Overall Process Flow



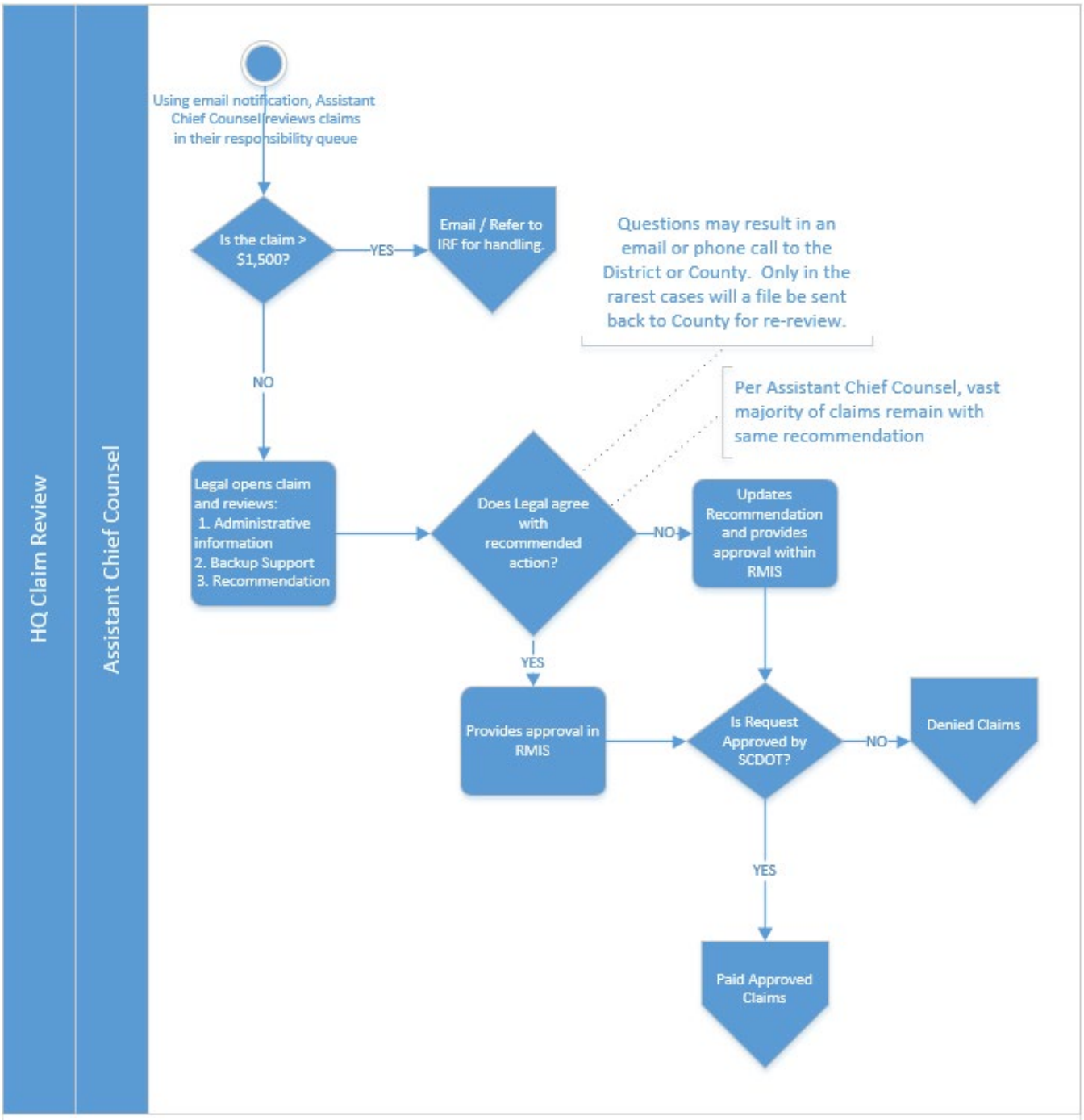
County


Receipt of Legal Claim (County)
County Claims Administrator
RME
Claim form received by County Office and Delivered to County Claims Administrator
Ensure that form received has the following:
1) Complete Information
2) Form is notarized
3) Vehicle Registration is included and accurate
Enter information into RMIS by adding a new claim
Information must be complete including copy of the vehicle registration
Backup support including work requests, prior claims on roadway, inspection
Investigate the substance of the claim by:
1) Gathering backup support for the claim
2) Performing a site visit if necessary
3) Taking photos
Was the claim due to contractor in an active construction site?
YES
Recommend Denial of Claim
Send Claim and Backup Support to Construction Office Representative
Construction Contractor Process
NO
Is SCDOT liable based on claim and statute?
NO
Recommend Denial of Claim
YES
Recommend SCDOT Payment of Claim
Recommendation sent to RME
RME checks RMIS Notifications at least weekly
Using reports, RME reviews claim that is in their responsibility queue.
Questions may result in a question for the claims personnel at the County.
RME opens claim and reviews:
1. Administrative information
2. Backup Support
3. Recommendation
Does RME agree with recommended action?
NO
Updates Recommendation and provides approval within RMIS
YES
Provides approval in RMIS
Sends claim electronically to District for Review

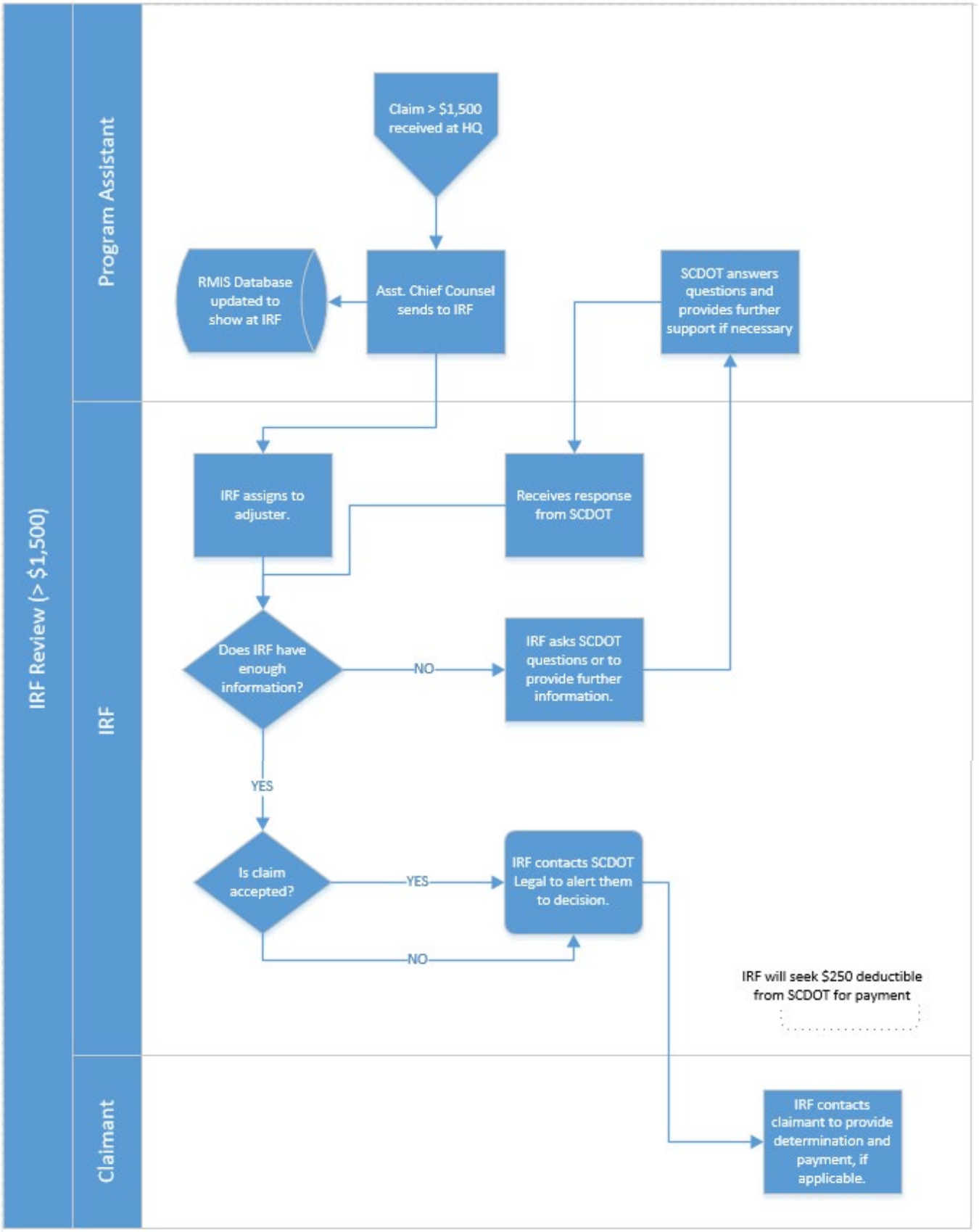
District


District Claim Review
District Claims Coordinator
District Claims Coordinator checks RMIS Notifications at least weekly
Using reports, DCC reviews claim that is in their responsibility queue.
Questions may result in an email or phone call to the County. Only in the rarest cases will a file be sent back to County for re-review.
RME opens claim and reviews:
1. Administrative information
2. Backup Support
3. Recommendation
Does DCC agree with recommended action?
NO
Updates Recommendation and provides approval within RMIS
YES
Provides approval in RMIS
Sends claim to HQ for Review

HQ Claims Office Review



Above $1,500 (IRF)



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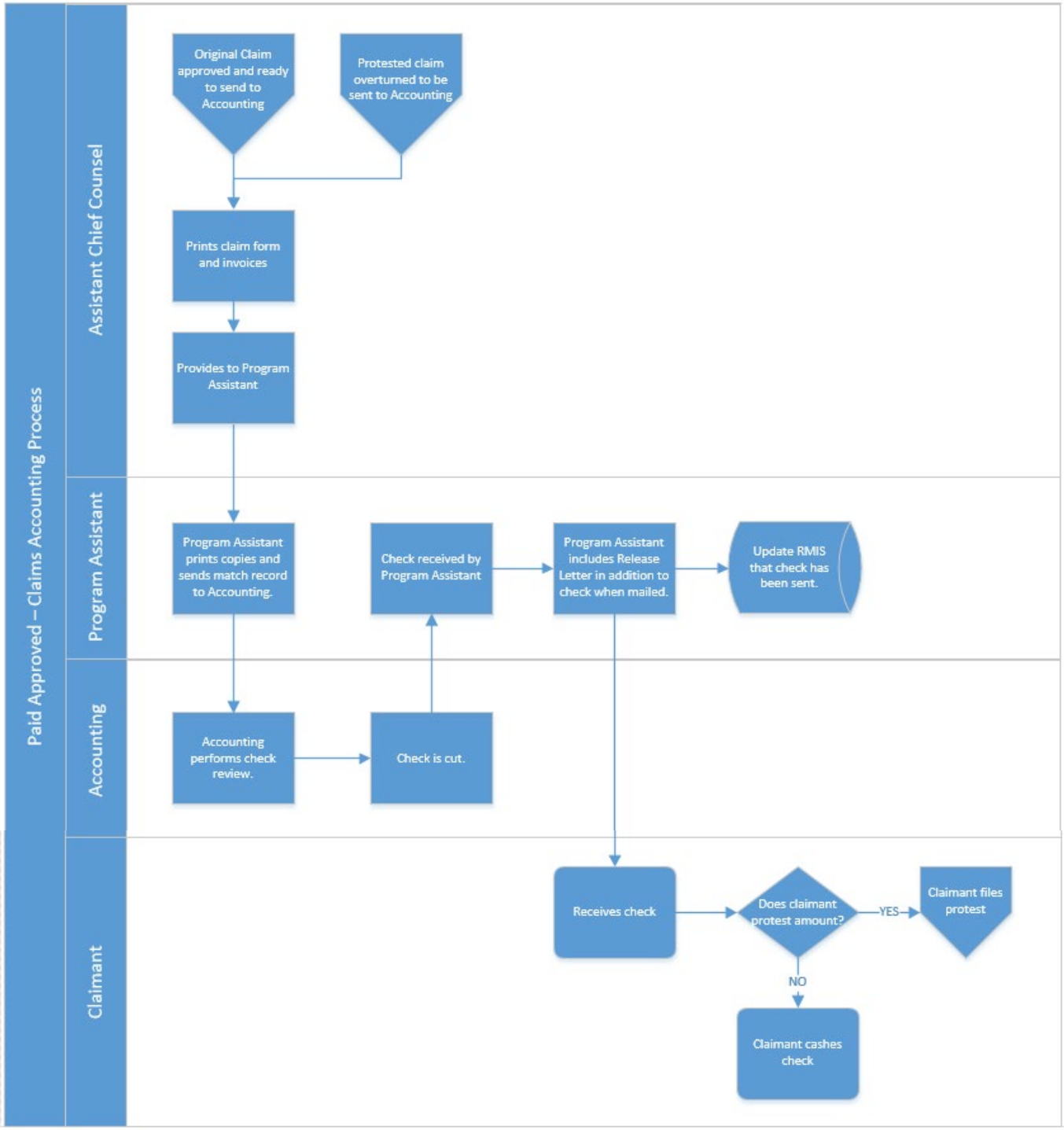
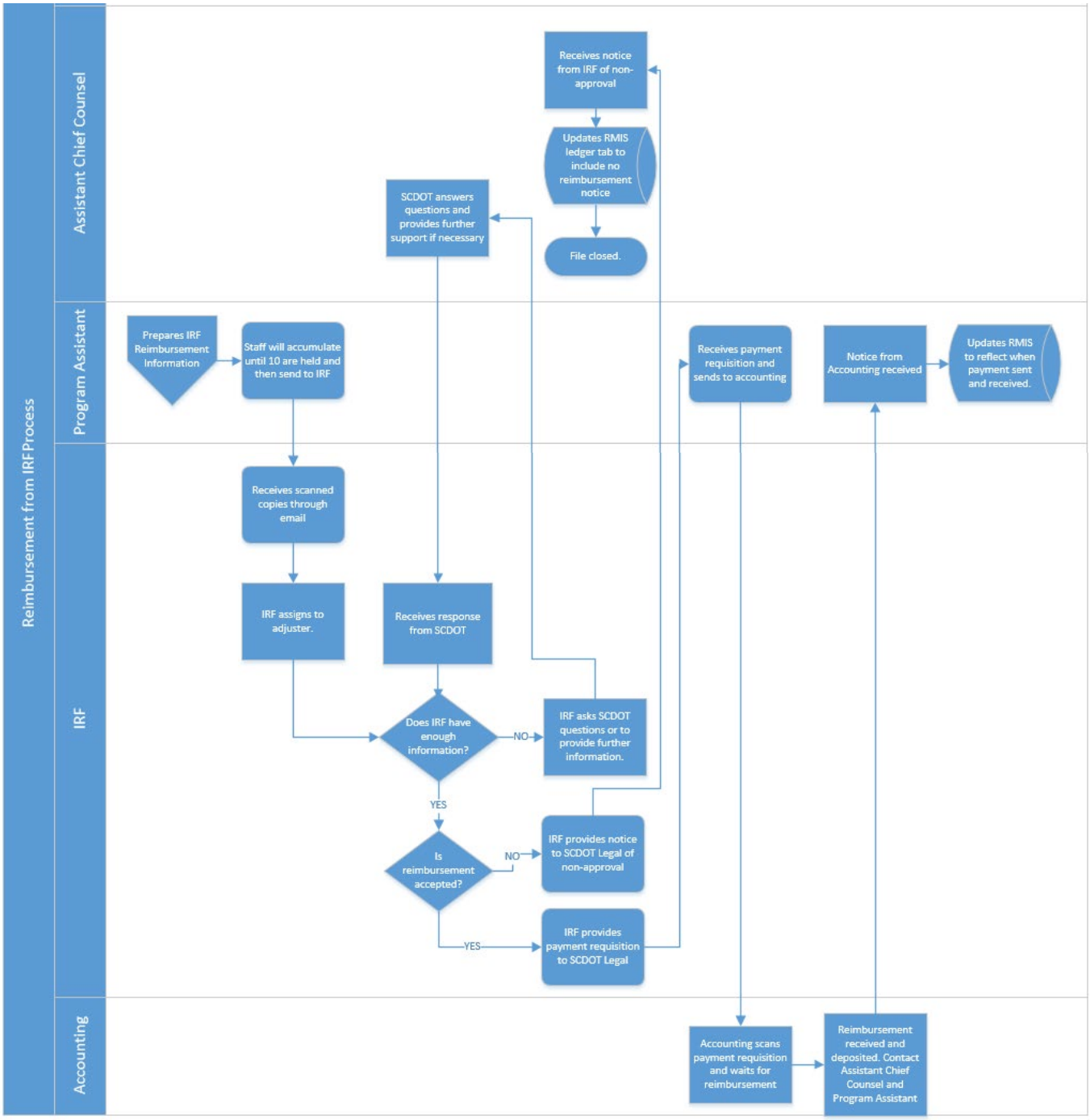
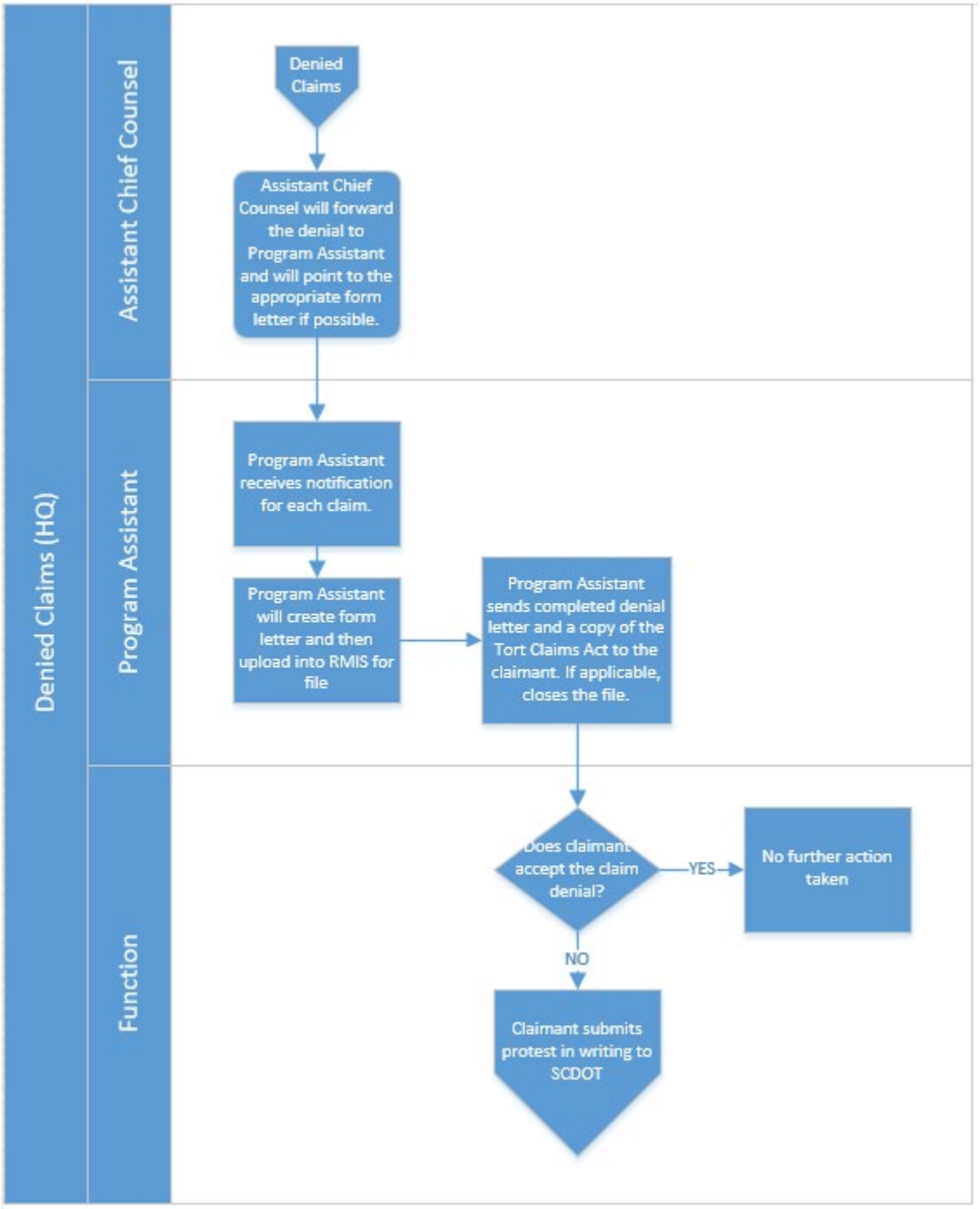


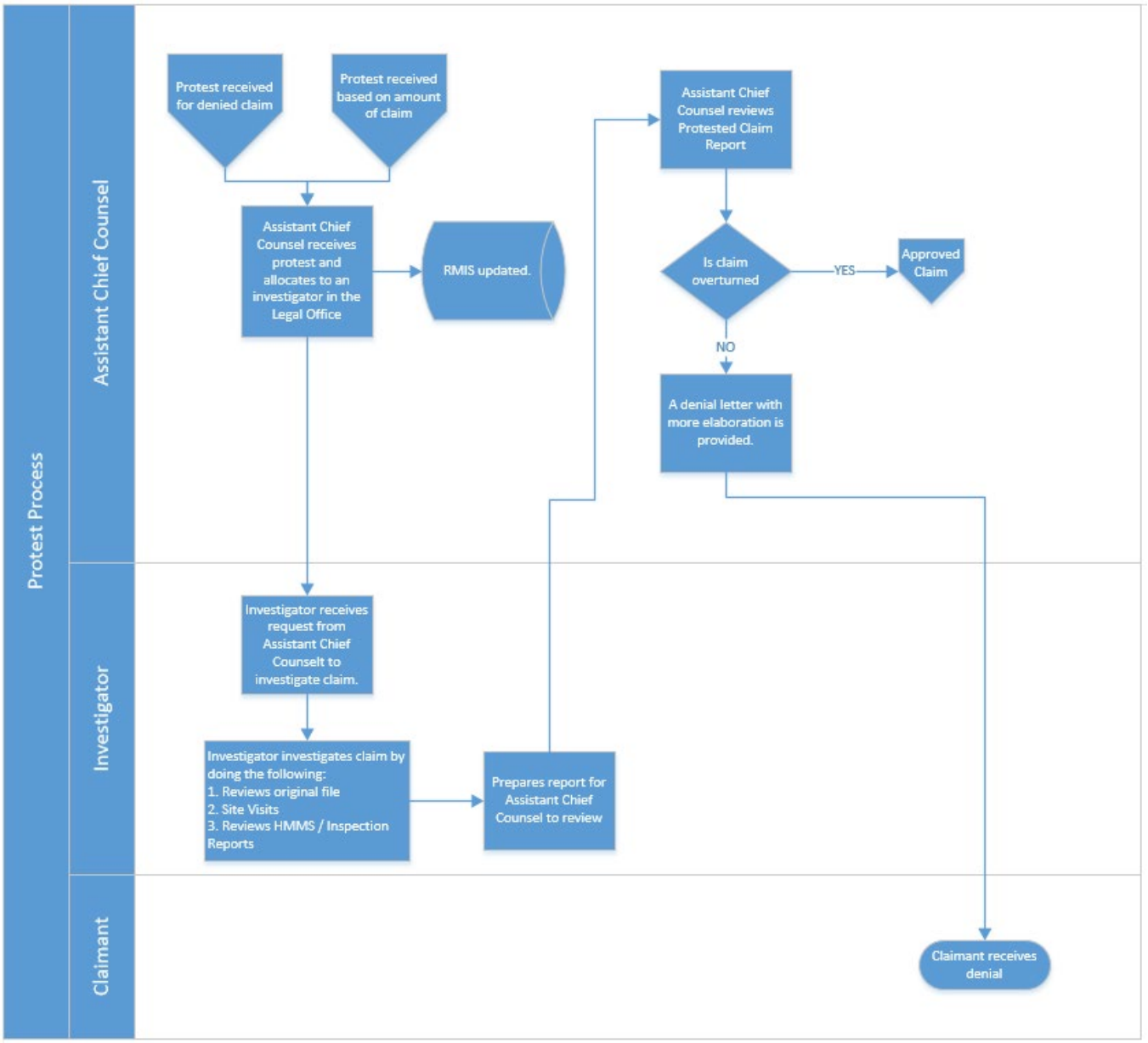
IRF Reimbursement



HQ Denied

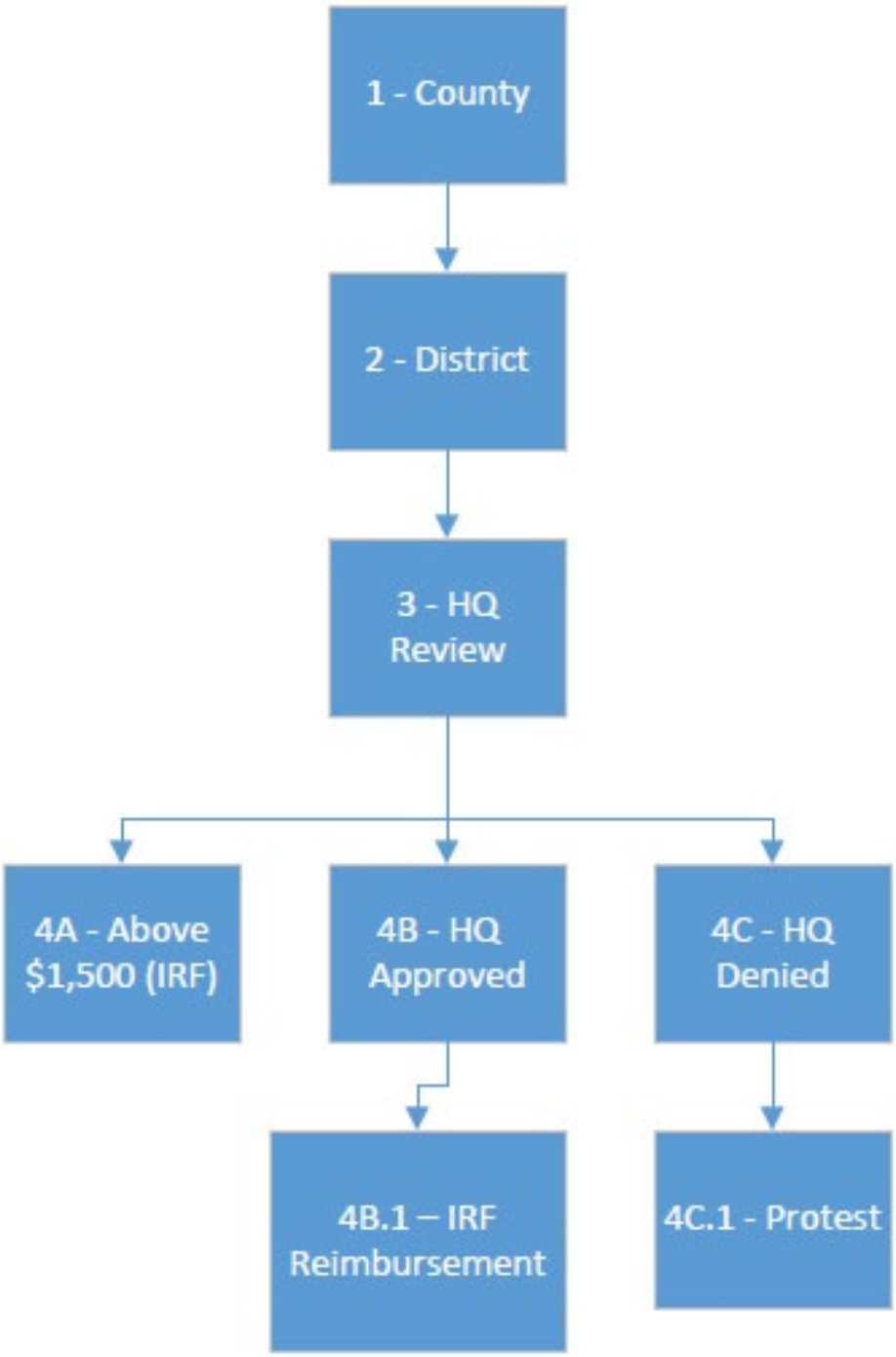

Denied Claims (HQ)
Assistant Chief Counsel
Program Assistant
Function
Denied Claims
Assistant Chief Counsel will forward the denial to Program Assistant and will point to the appropriate form letter if possible.
Program Assistant receives notification for each claim.
Program Assistant will create form letter and then upload into RMIS for file
Program Assistant sends completed denial letter and a copy of the Tort Claims Act to the claimant. If applicable, closes the file.
accept the claim denial?
YES
No further action taken
NO
Claimant submits protest in writing to SCDOT

Protest

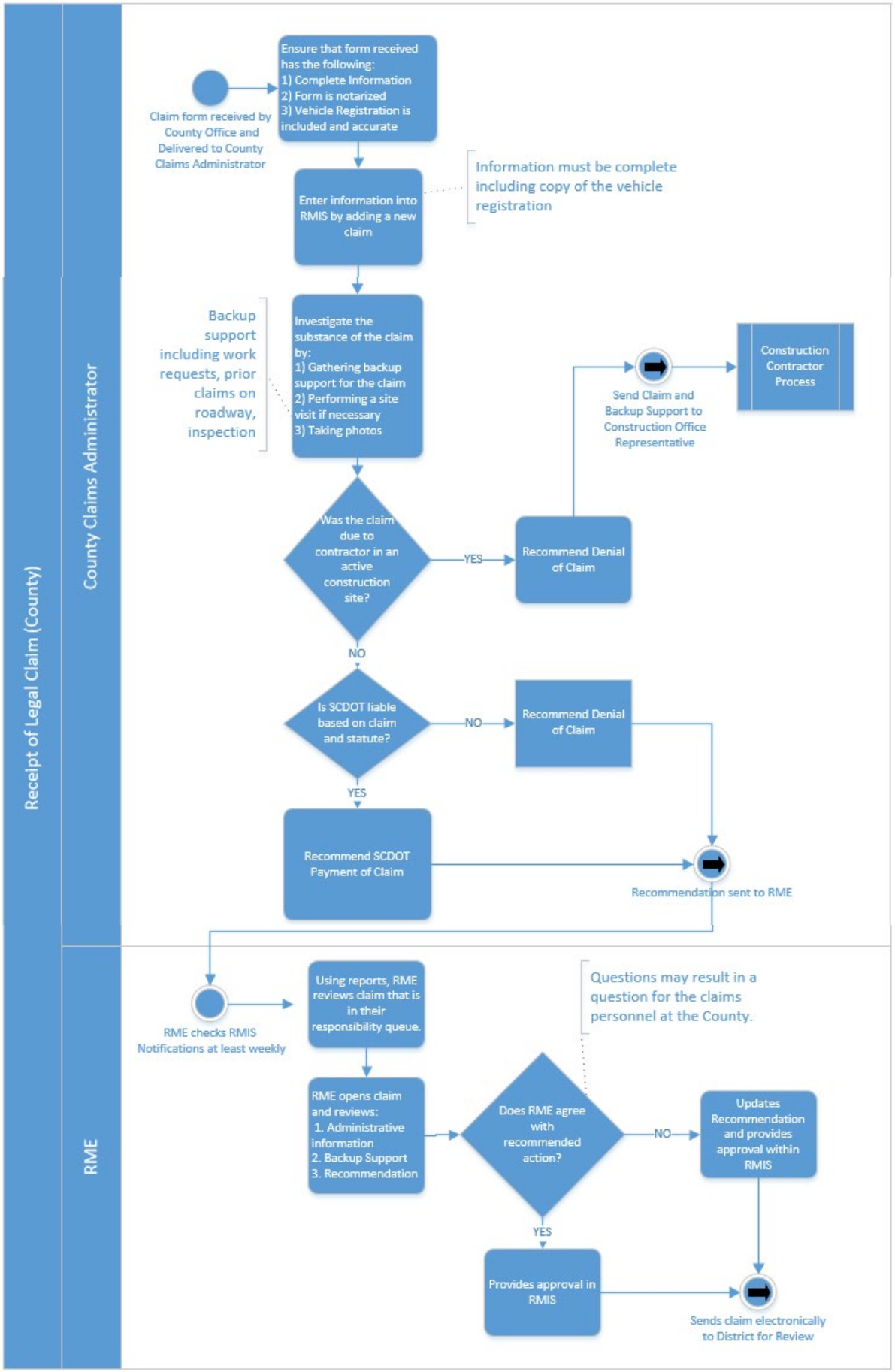

Protest Process
Assistant Chief Counsel
Investigator
Claimant
Protest received for denied claim
Protest received based on amount of claim
Assistant Chief Counsel receives protest and allocates to an investigator in the Legal Office
RMIS updated.
Assistant Chief Counsel reviews Protested Claim Report
Is claim overturned
YES
Approved Claim
NO
A denial letter with more elaboration is provided.
Investigator receives request from Assistant Chief Counselt to investigate claim.
Investigator investigates claim by doing the following:
1. Reviews original file
2. Site Visits
3. Reviews HMMS / Inspection Reports
Prepares report for Assistant Chief Counsel to review
Claimant receives denial

APPENDIX B **BUSINESS PROCESS MODELS REVISED PROCESS**

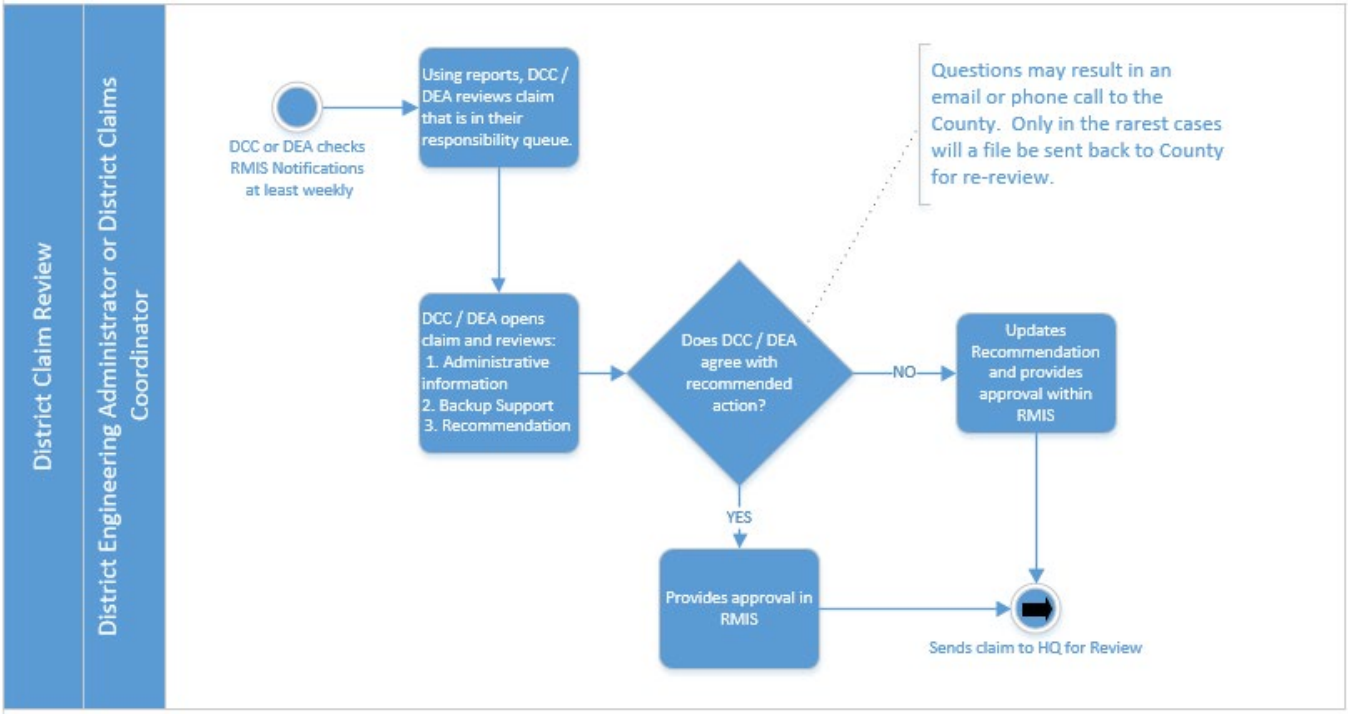
Overall Process Flow



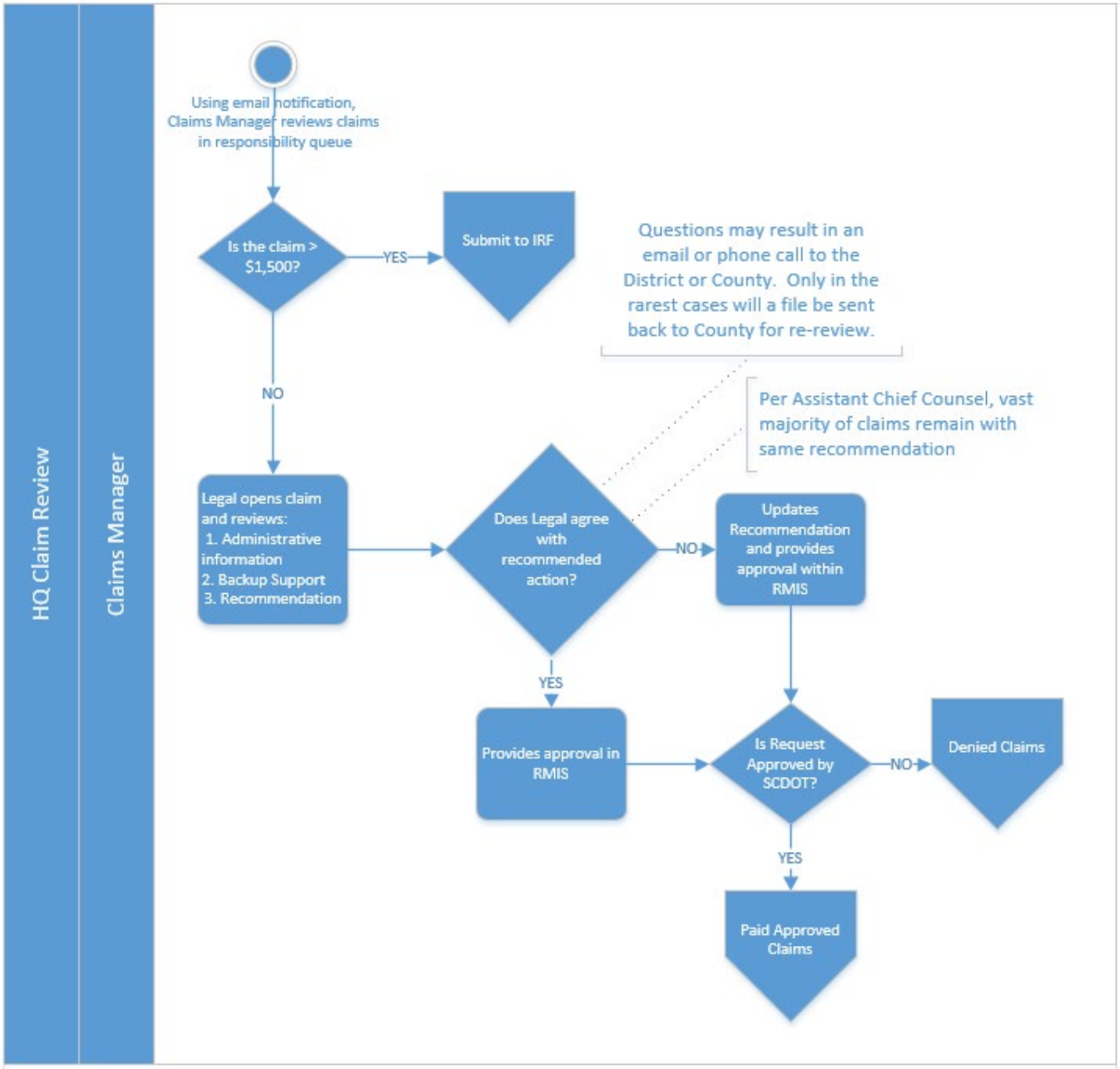
County


Receipt of Legal Claim (County)
County Claims Administrator
RME
Claim form received by County Office and Delivered to County Claims Administrator
Ensure that form received has the following:
1) Complete Information
2) Form is notarized
3) Vehicle Registration is included and accurate
Enter information into RMIS by adding a new claim
Information must be complete including copy of the vehicle registration
Backup support including work requests, prior claims on roadway, inspection
Investigate the substance of the claim by:
1) Gathering backup support for the claim
2) Performing a site visit if necessary
3) Taking photos
Was the claim due to contractor in an active construction site?
YES
Recommend Denial of Claim
Send Claim and Backup Support to Construction Office Representative
Construction Contractor Process
NO
Is SCDOT liable based on claim and statute?
NO
Recommend Denial of Claim
YES
Recommend SCDOT Payment of Claim
Recommendation sent to RME
RME checks RMIS Notifications at least weekly
Using reports, RME reviews claim that is in their responsibility queue.
Questions may result in a question for the claims personnel at the County.
RME opens claim and reviews:
1. Administrative information
2. Backup Support
3. Recommendation
Does RME agree with recommended action?
NO
Updates Recommendation and provides approval within RMIS
YES
Provides approval in RMIS
Sends claim electronically to District for Review

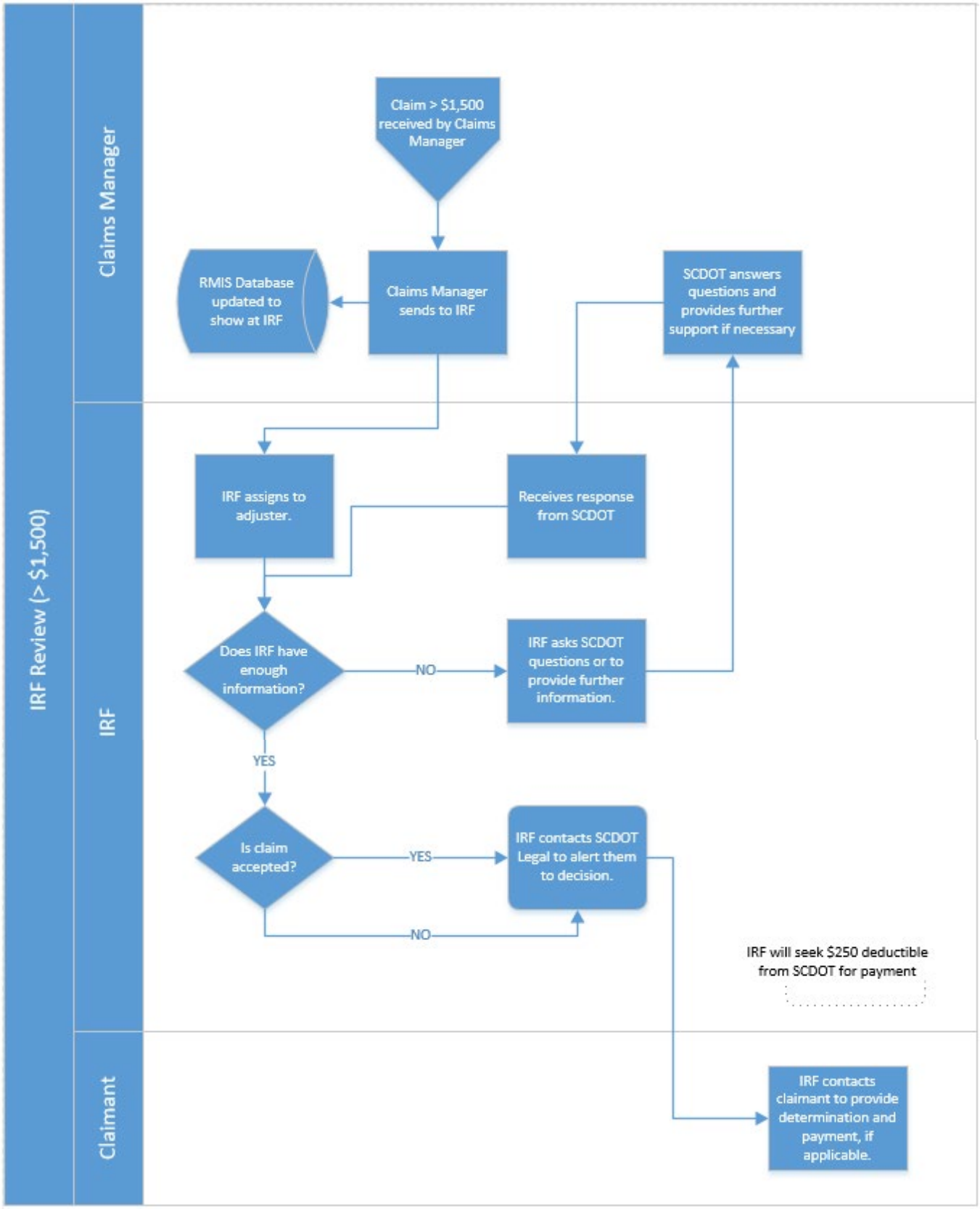
District


District Claim Review
District Engineering Administrator or District Claims Coordinator
DCC or DEA checks RMIS Notifications at least weekly
Using reports, DCC / DEA reviews claim that is in their responsibility queue.
DCC / DEA opens claim and reviews:
1. Administrative information
2. Backup Support
3. Recommendation
Does DCC / DEA agree with recommended action?
NO
Updates Recommendation and provides approval within RMIS
YES
Provides approval in RMIS
Sends claim to HQ for Review
Questions may result in an email or phone call to the County. Only in the rarest cases will a file be sent back to County for re-review.

HQ Claims Office Review



Above $1,500 (IRF)



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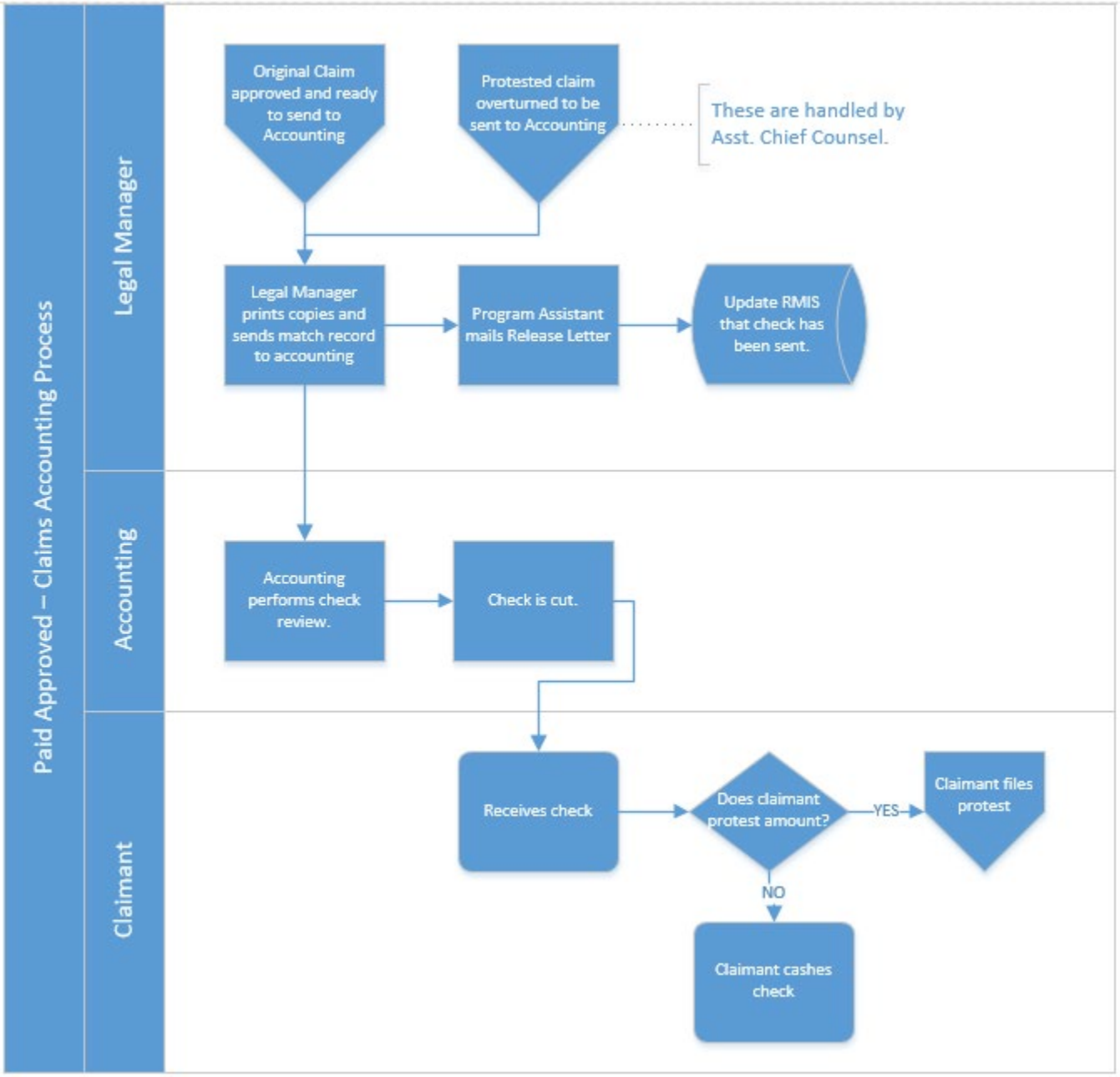
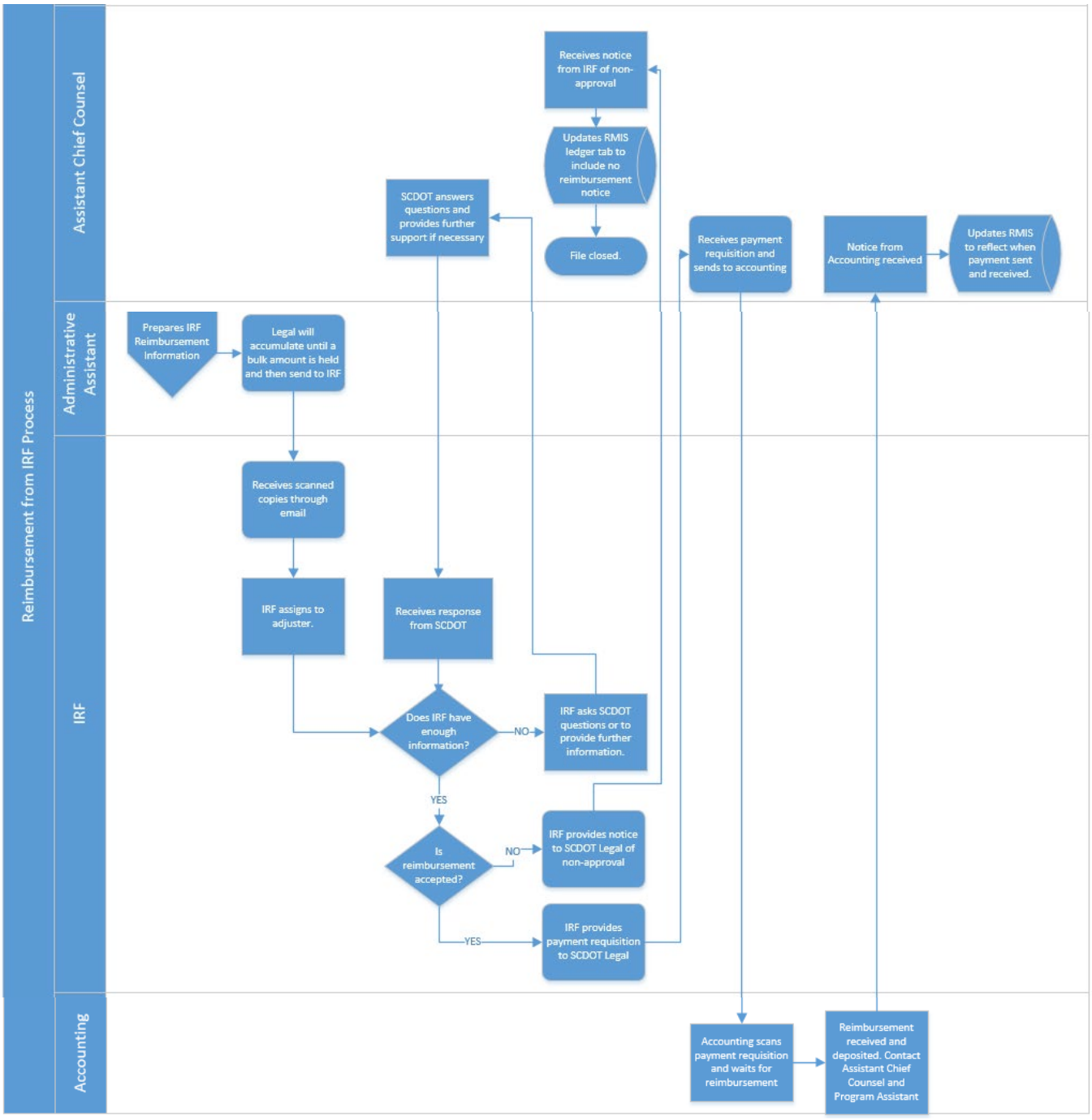
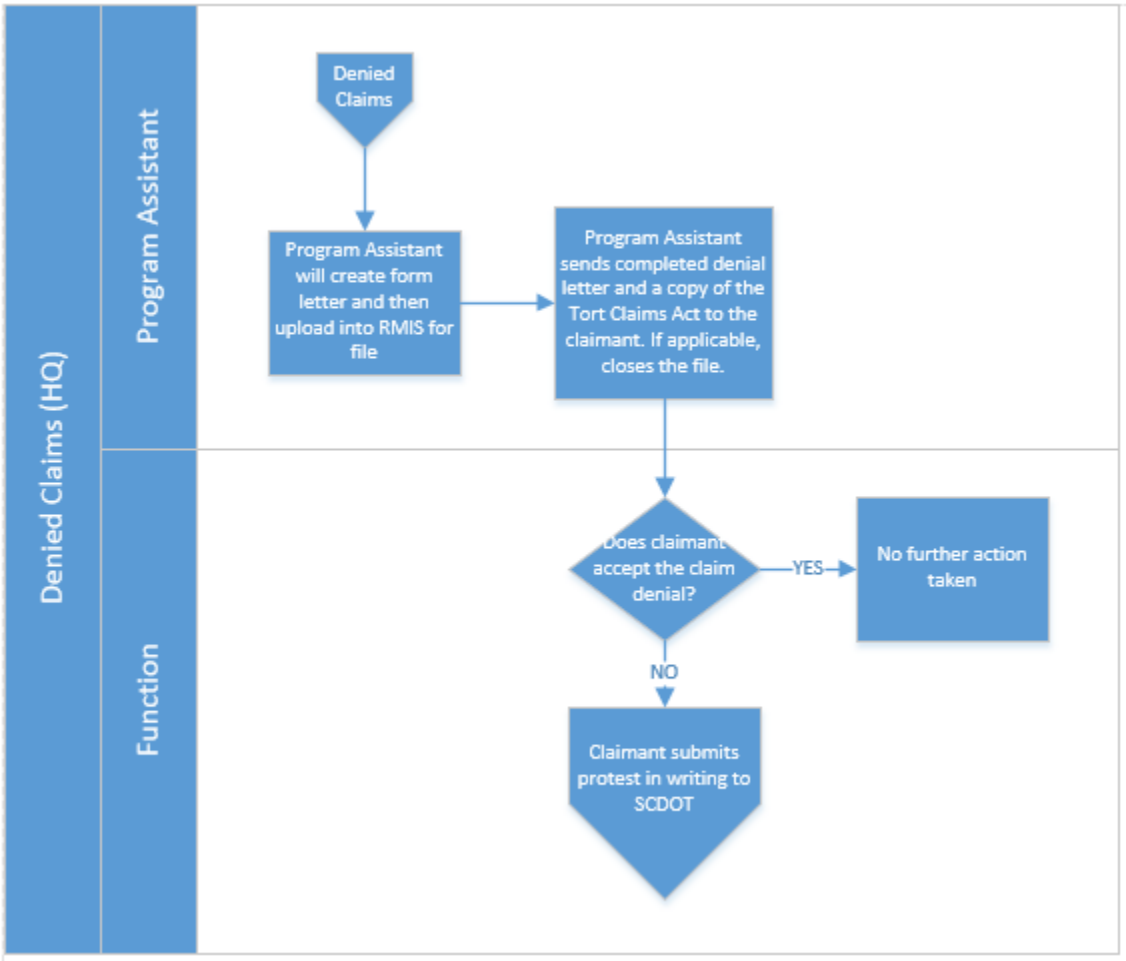


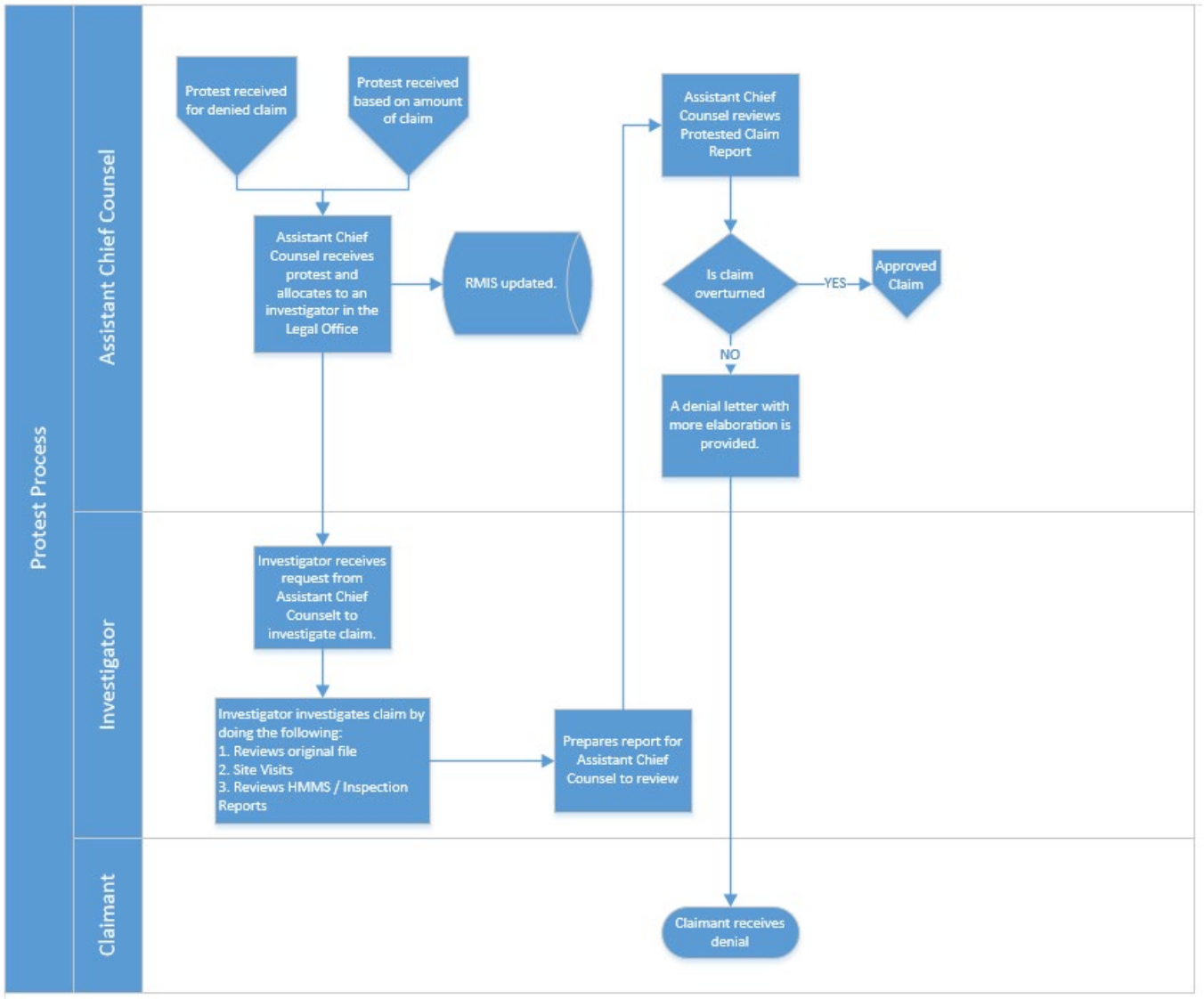
IRF Reimbursement



HQ Denied


Denied Claims (HQ)
Program Assistant
Function
Denied Claims
Program Assistant will create form letter and then upload into RMIS for file
Program Assistant sends completed denial letter and a copy of the Tort Claims Act to the claimant. If applicable, closes the file.
Does claimant accept the claim denial?
YES
No further action taken
NO
Claimant submits protest in writing to SCDOT

Protest


Protest Process
Assistant Chief Counsel
Investigator
Claimant
Protest received for denied claim
Protest received based on amount of claim
Assistant Chief Counsel receives protest and allocates to an investigator in the Legal Office
RMIS updated.
Investigator receives request from Assistant Chief Counselt to investigate claim.
Investigator investigates claim by doing the following:
1. Reviews original file
2. Site Visits
3. Reviews HMMS / Inspection Reports
Prepares report for Assistant Chief Counsel to review
Assistant Chief Counsel reviews Protested Claim Report
Is claim overturned
YES
Approved Claim
NO
A denial letter with more elaboration is provided.
Claimant receives denial